OLG Annual Report 2006–2007

OLG

Table of Contents

Message from the Minister

As Minister of Public Infrastructure Renewal, responsible for the Ontario Lottery and Gaming Corporation (OLG), I am pleased to present OLG's 2006-2007 annual report.

In fiscal 2007, OLG continued to play an essential role in the quality of life in Ontario's communities. The Corporation generated $1.9 billion to support vital provincial priorities such as health care, education and public infrastructure. Revenue was also invested in responsible gaming programs and strategies, charitable and community groups through the Ontario Trillium Foundation and Ontario's amateur sports initiatives through the QUEST FOR GOLD LOTTERY.

Ontario's gaming industry also directly employs approximately 20,000 people and supports job creation and small business growth in the tourism, hospitality and horse racing sectors in communities across the province.

Throughout the fiscal year, we continued to build on our government's responsible gaming strategy and its increased focus on social responsibility. Ontario has one of the best-funded problem gambling strategies in North America, with the government allocating $37 million in fiscal 2007 to research, treatment programs, prevention and public awareness campaigns. It is clear that OLG's commitment to its Responsible Gaming Code of Conduct has not wavered. The government is working with OLG and responsible gaming proponents to continuously assess the effect of its programs to address this important issue. OLG and problem gambling stakeholders continued to work together to develop initiatives to support responsible gaming. Indeed, there is an ongoing process to train retailers and employees on the socially responsible delivery of gaming services as well to raise awareness among Ontarians about how to get help for problem gambling if they need it.

In the fall of 2006, the Canadian Broadcasting Corporation's *the fifth estate* aired a story about concerns with the lottery retailer system. With this in mind, OLG dedicated itself to examining policies, procedures and security measures relating to the sale of its lottery products and the payment of lottery winnings to retailers and other lottery system "insiders". This was accomplished through an internal review by the audit firm KPMG, which I directed OLG to undertake, and through the Ombudsman of Ontario's report, which was released in March 2007.

Ensuring the integrity of Ontario's lottery system and safeguarding the trust Ontarians place in OLG are crucial to me as minister. I view both the internal and external reviews as valuable opportunities to make an excellent system even better. OLG is working diligently to implement the recommendations made by the Ombudsman and KPMG to strengthen the integrity of the lottery system, protect consumers, ensure the reputation of honest retailers and increase public confidence in the system as a whole. OLG and my ministry are committed to reporting back to the Ombudsman on a regular basis on the implementation of his recommendations. We have set high standards to build a lottery system and a public institution that are beyond reproach.

As minister responsible for overseeing OLG, I am confident that we are taking the right steps to ensure a gaming program that is competitive, socially responsible and has the public's trust.

The Honourable David Caplan
Minister of Public Infrastructure Renewal

Letter of Transmittal

The Honourable David Caplan
Minister of Public Infrastructure Renewal

Dear Minister:

On behalf of the Board of Directors, I am pleased to submit to you the Annual Report of the Ontario Lottery and Gaming Corporation for the fiscal year ended March 31, 2007.

Yours very truly,

Michael Gough
Chair
Board of Directors

Message from the Chair

Fiscal 2007 was my inaugural year as Chair of OLG, having assumed the position in late June 2006. It has been an honour for me to serve in a leadership capacity for a Crown agency that drives important returns to the Province on an annual basis to help build hospitals and schools and deliver essential public services.

In fiscal 2007, OLG continued its proud track record of dividend contributions, with nearly $2 billion flowing into provincial coffers.

However, unlike previous years, fiscal 2007 will be remembered for the scrutiny brought to bear on OLG's lottery program as well as more broadly on the Corporation as a whole. Ontario's Ombudsman, André Marin, conducted an investigation into OLG's protection of the public from fraud and theft and released a report entitled *A Game of Trust* on March 26, 2007. The report caused us to call into question a number of OLG fundamentals, both operational and cultural.

In the days, weeks and months following the report, the Corporation mobilized resources and acted decisively to renew the lottery program and implement cultural change across all lines of our business. In a short five months, there is ample evidence of our success, including our first quarterly report to the Ombudsman, delivered on June 28, 2007. The CEO's message speaks to the many actions we have taken. There is no doubt that lottery security in Ontario has been completely revamped and that we are well on our way to meeting our commitment to delivering customer service second to none.

Because OLG is owned by the people of Ontario and handles public money, operational accountability and transparency are essential to winning and keeping the public trust. For this reason, OLG has embarked on broad cultural change to balance our four objectives:

1. Return Dividend to Support Public Initiatives
2. Defend the Public Trust and Promote Responsible Gambling
3. Provide Entertaining Gaming Experiences
4. Help our Partner Businesses and Communities to Thrive.

In this regard, the exceptional leadership of Michelle DiEmanuele merits special recognition. Michelle was appointed by the Board as Interim CEO in April 2007 and, during her tenure, made remarkable progress in repositioning the organization as more accountable, more transparent and more responsive to the public we serve.

Michelle harnessed the talents and energy of the Executive Team and reached out to countless staff across the province in the process of driving change. Our 8,000 staff are essential to securing OLG's successful future as a high-performing and accountable public body, and I would like to acknowledge their professionalism and hard work during a challenging time.

Michelle followed Duncan Brown, who served as OLG's Chief Executive Officer for three years and resigned in March 2007 after many years of dedicated public service.

I would also like to highlight the invaluable role of the Board of Directors, to whom I am personally indebted. We would not be as far along the path of renewal without their strong leadership and direction. Among other things, the Board played a strong role in overseeing the work to implement the recommendations of the Ombudsman and independent audit firm KPMG, through a dedicated Ad Hoc Committee that worked with staff to ensure this implementation was timely and cost-effective.

I expect the Board will continue to be fully engaged in the change process as it unfolds over the coming months. Adding to the Board's roster of current members, I am pleased to welcome Debi Rosati and Jean-Pierre Soublière. Both bring extensive public sector, information technology and business and commercial expertise to the governance of the Corporation.

Yours very truly,

Michael J. Gough
Chair
Board of Directors

Message from the Interim CEO

Fiscal 2007 will stand out as a year when OLG responded to serious challenges and took strong action to maintain the confidence of Ontarians.

The release in March 2007 of *A Game of Trust* – a report by Ontario's Ombudsman – brought issues of fairness, integrity and accountability to the forefront. The Ombudsman's report served as a platform to build on our corporate values of accountability, integrity and respect. We were reminded of our broader mandate as a public entity and our responsibility to balance four objectives: return dividend to support public initiatives, defend the public trust and promote responsible gaming, provide entertaining gaming experiences and help our partner businesses and communities to thrive.

The Ombudsman's report helped build on efforts that were already underway to strengthen the system. In late 2006, we asked independent audit firm KPMG to take an in-depth and impartial look at our lottery operations. KPMG provided 40 recommendations, and together with the Ombudsman's 20 recommendations for the Corporation, OLG had a detailed road map to improve operations and customer service in lotteries and across our many lines of business.

By March 31, 2007, we were well on our way to implementing new measures to improve customer service and improve transparency. Some key accomplishments include:

- Installing self-serve ticket checkers that allow customers to check their own tickets at more than 6,000 lottery terminal retailers throughout Ontario – 8,800 were to be installed by September 2007
- Ensuring customers can see a "Big Winner" display for any prize of $10,000 or more
- Freezing terminals for prizes of $10,000 and more until OLG representatives have called and spoken with the winner and the retailer
- Launching a province-wide education campaign to help the public understand how they can protect themselves and their lottery purchases, such as the "Sign Your Ticket" promotion.

OLG is forming partnerships with gaming agencies in other provinces to identify best practices and explore technology that can be used in Ontario. On this front, OLG will continue to work with other Canadian lottery corporations under the umbrella of the Interprovincial Lottery Corporation to help build a better "national lottery" system for customers across the country.

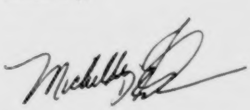
Business development initiatives have included a partnership with world-renowned Harrah's Entertainment Inc. that will see Casino Windsor renamed "Caesars Windsor" once the current expansion project is complete in 2008.

As a public service agency that is dedicated to improving the quality of life in Ontario, OLG is placing greater emphasis on responsible gaming. For example, letters have been sent to OLG loyalty program members advising them of community supports available for people experiencing problems related to gambling. OLG will continue monitoring the effectiveness of these messages and launching new initiatives.

These actions will help ensure OLG continues its role as an agency that delivers a strong dividend to the province to help build hospitals, schools and other essential services.

I am impressed with the dedication and passion that the people of OLG bring to their work. The leadership of the Board of Directors has helped the organization identify and focus on key priorities. I look forward to working with them to realize OLG's vision for excellence in customer service, business innovation and accountability to the people of Ontario.

Sincerely,



Michelle DiEmanuele
Chief Executive Officer (Interim)

Overview

Ontario Lottery and Gaming Corporation (OLG) and its contract management companies employ nearly 20,000 people across Ontario. It is responsible for 27 gaming sites as well as the sale of lottery products at more than 10,700 retail locations. An operational enterprise created by the Government of Ontario, the Corporation is intended to provide gaming entertainment in an efficient and socially responsible way that maximizes economic benefits for the people of Ontario, related economic sectors and host communities.

The *Ontario Lottery and Gaming Corporation Act, 1999* requires that net revenue from lotteries, casinos and slots at racetracks be made available to the Government of Ontario for various purposes, including the provision of health care and the promotion and development of physical fitness, sport, recreation and cultural activities throughout the province. Revenues are also made available to the Ontario Trillium Foundation by the government for distribution to charitable and non-profit organizations every year. The amount directed to the Foundation in fiscal 2007 totalled $105 million.

Corporate Mission

OLG's corporate mission guides employees in their work with customers and stakeholders. In all we do, we are asked to reflect on our purpose, realize our vision and embody clearly identified values.

Purpose

Make life better for people across Ontario – by generating revenue provincially and economic and social benefits locally.

Vision

Be the role model for gaming entertainment worldwide – by creating excitement and possibility for customers and generating economic return, while upholding the public's best interest.

Values

Act with integrity – by doing the "right thing," balancing what our customers and business partners ask of us with what the people of Ontario expect of us.

Respect our customers, employees, partners and the people of Ontario – by listening openly and honestly to the diversity of people and ideas around us.

Be accountable – by accepting the responsibility of setting and attaining high standards for ourselves in serving our customers and acting in the public interest.

Governance

The legislative authority of the Corporation is set out in the *Ontario Lottery and Gaming Corporation Act, 1999*. Classified as an Operational Enterprise Agency, OLG has a single shareholder, the Government of Ontario, and reports through its Board of Directors to the Minister of Public Infrastructure Renewal.

Members of the Board of Directors and its Chair are appointed by the Lieutenant Governor in Council and come from various communities across the Province of Ontario. Effective March 31, 2007, the Board of Directors comprises Michael Gough of Toronto (Chair), Ron Fotheringham of Woodview, Marlene McGraw of Brantford, Michelle Samson-Doel of Richmond Hill and Beverly Topping of Toronto.

Board Mandate

The Board of Directors establishes policies for the Corporation and counsels the Chief Executive Officer and senior executives, who oversee the Corporation's business operations. The Board's mandate is to direct management's focus to optimizing the Corporation's overall performance and increase shareholder value by executing its various responsibilities:

- to establish a well-defined strategic planning process, setting strategic direction
- to approve the annual business plan as well as operating and capital budgets
- to define and assess business risks
- to review the adequacy and effectiveness of internal controls in managing risks
- to appraise the performance of the Chief Executive Officer
- to oversee a code of conduct to ensure the highest standards in dealing with customers, suppliers and staff, with due regard to ethical values and the interests of the community at large in all corporate endeavours
- to track the overall performance of the Corporation
- to remain informed and provide input as required concerning communications with the Government of Ontario and other stakeholders
- to ensure compliance with key policies, laws and regulations.

Board Committees

The OLG Board of Directors operates through three permanent working committees and one ad hoc committee.

Governance and Nominating Committee

The Governance and Nominating Committee assists the Board in ensuring the Corporation's adherence to the highest standards in corporate governance. This committee helps the Board to identify areas for review and presents recommendations on corporate governance policies and practices. It also identifies the skills and attributes required by board members and nominates persons for appointment to the Board. Composition of this committee, as of March 31, 2007, is Beverly Topping (Chair), Michael Gough and Michelle Samson-Doel.

Audit and Risk Management Committee

The primary function of the Audi, and Risk Management Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring the Corporation's financial statements, internal controls over operations and financial reporting, capital expenditure program and risk management program as well as legal and ethical compliance systems. Composition of this committee, as of March 31, 2007, is Marlene McGraw (Chair), Ron Fotheringham, Michael Gough, Michelle Samson-Doel and Beverly Topping.

Human Resources and Compensation Committee

The Human Resources and Compensation Committee assists in ensuring that the Corporation has sufficient knowledge, industry experience and organizational strength at the senior management level to achieve its short- and long-term goals. This committee also recommends, for board approval, the compensation and benefit plans for senior management. Composition of this committee, effective March 31, 2007, is Ron Fotheringham (Chair) and Michael Gough.

Ad Hoc Committee

In March 2007, the Ontario Ombudsman, André Marin, released his report on the level of service and protection that OLG must offer to its lottery customers. As such, an Ad Hoc Committee was established to oversee the implementation of recommendations proposed by the Ombudsman and consultants engaged by OLG. Composition of this committee, effective March 31, 2007, is Michelle Samson-Doel (Chair), Michael Gough and Beverly Topping.

Growth and Integrity

Strategic planning provides OLG with a strong foundation for continued growth despite ongoing competitive challenges, including a decline in US patrons, partly attributable to the strengthening Canadian dollar and increased border-crossing regulations.

Improved revenues in our Lottery and Gaming divisions have offset the earnings challenges faced by facilities in our border communities, while entertainment and facility enhancements make our gaming sites leaders in a highly competitive field.

OLG continues to build its success by striving to be an industry and community leader, seeking out innovations that improve customer service and by regularly assessing the business environment to create business plans that mitigate and manage emerging risks.

Prize Integrity

In November 2006, OLG introduced a 7-Point Trust and Security Action Plan to maintain and reinforce the trust of every lottery player in the province. The action plan featured technological and human measures, and engaged consumers to submit ideas on enhancing security:

1. Self-Serve Ticket Checkers

A commitment to install, at all lottery terminal locations, a device enabling consumers to check their own tickets. By the end of fiscal 2007, almost 70 per cent – over 6,000 – of the ticket checkers had been installed.

2. Retailer Validation Procedures

Education programs for consumers and retailers emphasize that consumers must sign the backs of their tickets. Retailers must follow these simple steps:

- Always ask customers to sign their ticket before validations
- Always show customers the original ticket and validation (pay) slip together, so they can see that the control numbers match
- Always return the validation slip to customers.

Lottery staff reviewed ticket validation procedures with all lottery retailers and will continue to review these procedures to ensure compliance. Procedure reminders are delivered to retailers on a regular basis.

3. Improved Customer-Facing Lottery Screen

Four added features of the customer-facing lottery screens ensure that customers know when and what they have won.

- When retailers check a ticket, video display units at the lottery terminal tell players if they have won and indicate if they are a winner of a major prize
- Validation messages that appear on the bottom of the customer display screen are now larger and all prize amounts up to $990.90 are displayed. A message for non-winning tickets clearly identifies them as non-winners
- Non-winning, online tickets are 'branded' when validated at the lottery terminal. The message "Not In Winner File" is printed down the left side of the ticket
- For online game tickets winning $10,000 or more, a new 30-second 'Big Winner' video plays on the screen. The lottery terminal also plays a new jingle, which includes a voice telling the retailer to return the ticket to the customer. The terminal then stops functioning ('terminal freeze') and can only be restarted by OLG after a Customer Excellence Centre representative has spoken to both the retailer and the customer.

4 Public Awareness Campaign

Information is provided on our website, OLG.ca, and on the customer-facing screens at lottery terminal locations and large advertisements that have run in more than 40 Ontario daily newspapers. The campaign serves three imperatives:

- Reinforce the importance of signing the back of their lottery tickets
- Introduce self-serve ticket checkers, available at many retailers
- Remind players of various places where numbers can be checked, including OLG.ca.

5. Consumer Input

The OLG Customer Excellence Centre phone line operates 24 hours a day, seven days a week. Two new options are available on our toll-free line (1-800-387-0098):

- a consumer suggestion option, and
- a prize claim option.

A new e-mail address, playwithconfidence@olg.ca, also encourages customer feedback. By 2007 fiscal year-end, OLG's Customer Excellence Centre had responded to more than 1,900 consumer calls regarding suggestions and answered more than 300 consumer e-mails related to our 7-Point Trust and Security Action Plan.

6. Investigation Threshold

A new threshold for retailer wins has been set. When a retailer claims a prize of $10,000 or more (previously $50,000+) a detailed investigation is conducted, including interviews with the retailer and verification of purchasing information and previous playing statistics. Only when this investigation is complete and the claim proved to be valid is the prize paid out. If there is a serious concern with a retailer lottery prize claim, the appropriate police authorities are contacted immediately.

7. Complaints Process and Investigation Procedures

OLG has hired five new full-time staff in the investigations unit to assist with procedures and complaints and has contracted an investigation company with a staff of more than 25 experienced investigators to assist in ensuring that all complaints, as well as retailer wins, are documented and reviewed in a timely manner.

Many of the recommendations from the Ombudsman's report had been implemented by the fiscal 2007 year-end. Implementation plans and timelines for the remaining recommendations will be completed by June 30, 2007. We are confident these actions will reinforce consumers' trust of Ontario's lotteries.

Responsible and Responsive

In delivering gaming entertainment in Ontario, OLG generates more than $1.9 billion annually for provincial priorities such as health care and education. The Corporation is responsible for the sustained health of a gaming industry that benefits the communities in which it operates and the people of Ontario.

In addition to its direct economic contributions, OLG strives to be an active corporate citizen with a culture of participation and caring that encourages its employees and associates to engage responsibly both at work and in the wider world.

Responsible Gaming

Information Centres

On November 18, 2006, the Responsible Gaming Information Centres (RGICs) located in Casino Windsor and Fallsview Casino Resort celebrated their first anniversaries.

RGICs are operated by the Responsible Gambling Council (RGC), staffed by independent problem-gambling-prevention specialists and funded by OLG. They provide on-site information for both casino patrons and staff, promote responsible gaming and provide information about safe practices and professional treatment options. Preliminary reports indicate that the centres have been well received and provide valuable information to customers and employees.

Prevention Project

Early in 2007, OLG embarked on a research project with the Ontario Problem Gambling Research Centre (OPGRC).

The project, in the Ottawa region, tests the effectiveness of sending a letter to Winner's Circle members providing information about responsible gaming and a counselling program for customers who need help in moderating their gambling.

Staff Awareness

To measure the impact of training programs undertaken in the previous fiscal year, OLG conducted participant evaluations and a follow-up survey this year. The program for employees and managers was intended to increase awareness of potential gambling-related problems and understanding of best practices in responsible gaming.

Results of this year's survey indicated that the program had been highly successful as employees noted an increased understanding of appropriate practices. The survey will be repeated in upcoming years to gauge the continued effectiveness of this training.

OLG incorporates ongoing responsible gaming training and messages into its orientation programs for new employees and reinforces this training through a variety of employee communication vehicles, including internal newsletters, digital signage and staff intranet.

As part of OLG's commitment to the Responsible Gaming Code of Conduct, these initiatives build awareness of problem gambling, dispel myths and enable OLG employees and managers to respond appropriately to customer requests for help and information.

Within Limits

For the fourth year in a row, March marked "Within Limits: Problem Gambling Prevention Month" – an important initiative of RGC. OLG lends its full support to this annual campaign, which is designed to increase awareness of risks and help to prevent problem gambling, by displaying posters and brochures at select lottery retailers and bingo partners and by hosting RGC information booths at all OLG gaming facilities.

OLG placed responsible-gaming advertisements in newspapers and ran its popular slots-myths-buster advertisements on radio during March. The advertisements, which first ran in 2005, dispel the most popular myths and inform players of the truth about slot machine play – that every play on a slot machine has a random outcome and there is no way to predict the outcome of any play. Public-awareness tracking has indicated that since the ads first aired, public understanding of slot machine myths has improved significantly. For example, before the campaign 46 per cent of survey respondents believed machines were more likely to pay out at a certain time of day, while in April 2007 only 27 per cent believed that myth to be true.

Stakeholders

OLG recognizes that minimizing the harms associated with gambling is a shared responsibility. We have established a direct link between our gaming sites and local problem-gambling treatment providers that are funded by the Ministry of Health and Long-Term Care. We facilitate regular meetings that encourage open discussions of the issues we face as a community. We strive to share information, promote our responsible-gaming practices and learn from the experts so that we can find new ways to better direct problem gamblers to appropriate treatment providers.

OLG has strong working relationships with its partners at the RGC, the OPGRC, the Ontario Problem Gambling Helpline and the Centre for Addiction and Mental Health. We are also active members of the Canadian Partnership for Responsible Gambling – a Canada-wide group of non-profit organizations, gaming providers, research centres and regulators who are working to find and promote ways to effectively reduce the risk of problem gambling.

Community and Charity

OLG has a strong corporate tradition of giving back to the communities in which it operates. This year the legacy continues.

OLG raised a record-breaking total of over $290,000 for the 2006 United Way campaign, a 22 per cent increase over the previous year. Dozens of enthusiastic employees from 30 sites volunteered to plan fundraising events and canvass for donations.

Ontario Public Service workplaces have been contributing to Federated Health Charities for 22 years and OLG has been proud to count itself as one of the contributing agencies for the past five years. In fact, we have been the highest donating government agency, and this year OLG employees were the first to surpass $200,000 – raising $209,000 during the summer 2006 campaign.

Fallsview Casino Resort and OLG also lent their support to the David Foster Foundation this year – hosting an international star-studded charity gala, David Foster and Friends, in November. The gala featured Andrea Bocelli and Michael Bublé among an impressive line-up of entertainers including recording artist Babyface, singer-songwriter Paul Anka and comedian Sinbad and raised $3.3 million for the Foundation, which helps pay non-medical expenses such as transportation and accommodation for families with children who require organ transplants.

Infrastructure for Growth

The Lottery division continues to live up to its role as the cornerstone of OLG and a strong foundation for success. In fiscal 2007, the implementation of our INSTANT Growth Strategy, combined with investments in operations and infrastructure, staff development and security initiatives, laid the foundation for record sales.

In the last fiscal, 41 people in Ontario won at least $1 million.

Lottery Sales and Prizes by Game for the year ended March 31, 2007

Product Groupings	Number of Games		Sales ($ millions)	Percentage of Total Sales		Prizes ($ millions)
Online games	17	$	1,629.4	61.4%	$	801.7
Sports games	4		257.8	9.7%		158.0
INSTANT games	82		708.1	26.7%		443.6
BINGO games	3		60.3	2.2%		40.8
Totals	**106**	**$**	**2,655.6**	**100.0%**	**$**	**1,444.1**

Innovation

Street Smarts

The new OLG Prize Centre opened June 2006, with a different look, name, location and fresh excitement. Located in the heart of downtown Toronto, OLG's Prize Centre offers improved visibility and public access. An estimated 18 million pedestrians and 14 million cars pass this storefront every year. Media elements, including a 12-by-30-foot exterior screen, allow for display of cheque presentations, lottery draws, winning numbers, Amber Alerts, responsible gaming messages and OLG advertisements.

Network Upgrade

In June 2006, OLG began to implement a new high-speed Internet service provider network to replace the aging lottery retailer network.

By migrating to this new digital network, OLG expects to achieve significant cost savings and a variety of additional benefits for our retailers. The point-of-sale network will be more responsive, as sign-on time will be significantly decreased and transmissions and downloads of system enhancements will be faster and more efficient. We also anticipate that customized media-streaming functionality will provide new opportunities for enhancing business with retailers and communication with consumers.

The transition to the new network began in late May 2007, after completion of the production pilot. Full network deployment is anticipated by summer 2008.

INSTANT Products

Fiscal 2007 was a year of record-breaking sales in the INSTANT ticket category. Sales reached $708.1 million – a 20 per cent increase over the previous year and the highest in the history of the category. The number of tickets activated this year increased by 40 million units for a record 227 million. Christmas week sales of $24.3 million marked the biggest single sales week in INSTANT ticket history.

The implementation of our INSTANT ticket rejuvenation strategy demonstrates the importance of strategic planning to OLG's success. The strategy includes six key tactics that are critical to the successful growth in the INSTANT ticket category:

- organizational focus
- increased payout
- merchandising
- product offerings
- channel development and advertising
- promotional support.

These intertwined tactics are crucial to moving the business towards profitable long-term growth.

Quest for Gold

Among our realized plans was a successful public launch of the summer edition of the QUEST FOR GOLD INSTANT ticket in August 2006. This targeted-benefit ticket met its goal of $10 million in proceeds for the benefit of Ontario's high-performance athletes.

The summer edition featured four of the summer sport amateur athletes who benefited directly from sales of the first edition launched last fiscal year. This edition offered five top prizes of $1 million and two prizes in each of the $250,000, $100,000 and $25,000 categories as well as other cash prizes of $20 and up. A special $3-INSTANT CROSSWORD ticket, in addition to the regular $20 QUEST FOR GOLD offering, contributed to the program's success in raising funds for Ontario athletes.

The Ministry of Health Promotion distributes proceeds from QUEST FOR GOLD in the form of grants for direct athlete assistance, enhanced high-performance training and competitions. The Ministry also assists in promoting ACTIVE 2010 programs to increase the fitness level of all Ontarians.

Vacation for Life

A new $2 INSTANT game invites customers to envision their dream vacation. VACATION FOR LIFE was launched April 2006, with a top prize of $5,000 each year for 20 years (or a one-time payout of $75,000).

VACATION FOR LIFE appeals to customers who love to travel and appreciate the freedom of not having to save up for that dream vacation.

Online Products

Online games continue to be the top revenue generator in the Lottery division, accounting for 61 per cent of overall lottery revenues. Renewal and innovation reinforce that success.

Millionaire Life Launch

February 2007 was 'millionaire month' in Canada as OLG, along with our partners in other jurisdictions across the country, introduced MILLIONAIRE LIFE – the latest innovation in annuity prize offerings – with a top prize of $1 million each year for 25 years.

Winning numbers for this prize are drawn only from the selections sold, guaranteeing a winner for every prize drawn. In addition to the top prize, this new online offering includes:

- four prizes of $1 million
- 20 prizes of $100,000
- 14 Early Bird prizes of $100,000 for tickets purchased between February 1 and 14
- prizes of $1,000 for matching the first six digits and $20 for matching the last two digits of the top prize winning number.

Sales in Ontario for the February 28 draw represented over 39 per cent of national sales, reaching $29.2 million in fiscal 2007.

Sports

Our province-wide Sports Games category has been rejuvenated and has hit its highest sales records in 10 years. The category is reaping the rewards of recent enhancements to the PROPS and POOLS options, more efficient and effective databases and collaboration with resort casinos, which began with the opening of Casino Niagara's new Sports Section in September 2005.

The Sports Section is a hub for sports lottery and off-track betting where customers can play a variety of lottery products while watching several sporting events simultaneously on big-screen televisions in a casino atmosphere. Casino Sports games are operated separately from the traditional PRO•LINE games. CASINO OVER/UNDER, CASINO ODDS, CASINO POINT SPREAD and CASINO PROPS, with higher wagering limits, unique odds and events and different redemption timelines, are available only at Casino Windsor and Casino Niagara.

The lottery-casino collaboration was expanded this year to Legends Sports Bar, the new multi-million-dollar sports gaming venue at Casino Windsor. Legends' 170-seat bar features 36 high-definition televisions, three nine-foot projection screens, a 119-foot sports ticker and a stadium-style menu.

The introduction of casino editions of OLG's popular sports lotteries represents the synergistic success of collaboration between different business lines and has made the Windsor and Niagara casinos the leading sports-lottery retailers in the province. This initiative is an important part of the provincial gaming strategy and enhances the competitiveness of OLG's gaming sites.

Bingo

The revitalization of Ontario's charity bingo industry is part of the Ontario Gaming Strategy announced in January 2005. OLG is continuing with pilot sites to introduce electronic bingo this year.

Bingo Revitalization

Bingo supports thousands of grassroots, not-for-profit organizations in the province, and the e-bingo project has focused on delivering a new entertainment experience through improved customer service, new technology and updated facilities in order to attract new players and revive the interest of past customers. The first phase of the pilot project included sites in Barrie, Kingston, Peterborough and Sudbury with encouraging results. The e-bingo pilots have succeeded in growing markets in their respective communities – raising money for local charities and assisting in the preservation of local stakeholder benefits. Other markets under consideration for pilot projects include: Windsor, Thunder Bay, the Niagara region, Sarnia/Point Edward, Cornwall and Mississauga.

These additional pilot sites will allow us to assess differing market conditions, including cross-border competition, regional conditions and varied market sizes.

Congratulations to OLG Lottery division award winners:

- American Gaming Associations Award, Best Multi-Format Ad Campaign, for the 'Meet Ned Buckle' PayDay lottery campaign
- Silver CASSIE[*], Off to a Good Start category, for the 'Meet Ned Buckle' PayDay lottery campaign
- Gold CASSIE[*], Best Performance in the ten-year history of the CASSIE Awards.

[*] Canadian Advertising Success Story Industry Excellence Awards

People Plus Technology

This year, our six OLG and aboriginal casinos and 17 slots-at-racetrack operations generated $2.0 billion in gaming revenues, out of which approximately $13 million was paid directly to the host communities of the five OLG casinos, $4.8 million to the Mississaugas of Scugog Island First Nation and $57.5 million to the host communities of the slots-at-racetracks operations.

Both revenues and spinoff tourism activity in regions where these facilities are located and in the wider horse industry provide solid economic development benefits to the province.

Gaming Service Excellence

Improving quality and ensuring continuity of customer service are fundamental goals at all OLG gaming sites. Site Operational Excellence teams, our Customer Service Excellence (CSE) Leadership Training and a new Customer Service System are examples of how we work to achieve these goals.

By the end of fiscal 2007, Operational Excellence teams had been established at 15 gaming sites – Clinton, Dresden, Georgian, Grand River, Hanover, Hiawatha, Kawartha, Mohawk, Point Edward, Sault Ste. Marie, Thousand Islands, Thunder Bay, Western Fair, Windsor and Woodstock.

OLG's innovative CSE Leadership Training program for all gaming site managers and supervisors was also completed this year and our Customer Service System was fully implemented, providing clear procedures for all customer complaints and tracking them in a centralized database for all gaming sites to ensure that complaints are effectively addressed and information is accessible.

Technological Advances

Ticket In – Ticket Out

Following last year's successful pilot project, Ticket In – Ticket Out (TITO) technology was introduced at the majority of OLG gaming facilities during fiscal 2007.

The pilot test at Woodbine Slots measured customer acceptance and the technology's compatibility with existing gaming infrastructure. This year, conversion to TITO at Woodbine was completed – 1,945 slot machines were enabled – and the technology was rolled out to other gaming facilities. Nickel and quarter machines were converted at most OLG slots facilities and casinos.

With TITO technology, players no longer need to deal with coins or wait for hopper fills. The technology also reduces coin handling by staff. It also increases revenue per machine while reducing costs related to the operation and maintenance of slot machines, coin accepters and coin hoppers.

The conversion reflects OLG's ongoing commitment to improved customer service and operational efficiency.

Community Partners

OLG issued more than $70 million in non-tax gaming revenue payments during fiscal 2007 to the 23 municipalities that host OLG casinos and slots-at-racetrack facilities. The payments represent the communities' share of slots revenue.

Host municipalities for slots at racetracks receive five per cent of slot machine revenues from the first 450 slot machines and two per cent from each additional machine over that number. The use of funds is at the discretion of the municipality.

In addition, racetracks and horse people receive 10 per cent each of the slot machine revenues from slots-at-racetrack facilities. In the case of OLG Slots at Ajax Downs, the Ontario Racing Commission receives the second 10 per cent for the economic development of the horse racing industry in Ontario. Racetrack owners and their horse people have received more than $2.06 billion since the launch of the program in 1998.

Currently, the Government of Ontario also allocates two per cent of revenue from slot machines at OLG casinos and slots-at-racetrack facilities to the province's problem-gambling program for research, treatment and prevention programs and has committed to ensuring a minimum of $36 million per year is directed to this program.

OLG Casinos - Economic Impact of Operations as of March 31, 2007

Facility	Opening Date	Number of Employees	Annual Payroll ($ thousands)	Revenue to Municipality* ($ thousands)	Number of Patrons (thousands)	Number of Slots	Gaming Tables
OLG Casino Brantford	Nov 17, 1999	913	$ 37,114	$ 3,702	2,032	514	56
OLG Casino Sault Ste. Marie	May 19, 1999	346	14,864	1,470	794	431	13
Great Blue Heron Charity Casino Slots Facility	May 3, 2000	***	***	****	1,320**	535	*****
OLG Casino Point Edward	Apr 18, 2000	531	22,113	2,038	707	490	30
OLG Casino Thousand Islands	Jun 20, 2002	458	19,555	3,308	1,208	520	26
OLG Casino Thunder Bay	Aug 28, 2000	406	17,762	2,447	1,176	452	15
Totals		**2,654**	**$ 111,408**	**$ 12,965**	**7,237**	**2,942**	**140**

Note: The Great Blue Heron Charity Casino is owned by the Mississaugas of Scugog Island First Nation and is operated by Great Blue Heron Gaming Company, which is wholly owned by Casino Austria, Fantasy Gaming and Sonco Gaming. OLG is responsible for the management of the slot facility only. The Great Blue Heron Charity Casino is a true Aboriginal casino and a major First Nations initiative. The Mississaugas of Scugog Island First Nation Indian Band (#34) formed the Baagwating Community Association, a non-profit charitable association, to conduct and manage the table game operations.

The Ontario Government receives 20% of gaming revenue and 100% of net profits from the slots facility at Great Blue Heron Charity Casino.

* 5% of revenue from slot machines up to 450 machines and 2% of revenue from slots over 450

** Great Blue Heron patron figures are based on entire facility.

*** 253 employees of Great Blue Heron Gaming Company work in the slot facility. Annual payroll is $13.3 million.

**** As the host community of the slot machines at Great Blue Heron Charity Casino, the Mississaugas receive 5% of the revenue from the slot machines.

***** While Great Blue Heron Charity Casino offers table games, OLG management and reporting is limited to the slot facility.

OLG Slots - Economic Impact of Operations as of March 31, 2007

Facility	Opening Date	Number of Employees	Annual Payroll ($ thousands)	Number of Patrons (thousands)	Number of Slots	Revenue to Tracks* ($ thousands)	Revenue to Horse People* ($ thousands)	Revenue to Municipality* ($ thousands)
Ajax Downs	Feb 28, 2006	229	$ 9,094	1,150	250	$ 8,610	$ 8,610	$ 4,305
Clinton Raceway	Aug 24, 2000	85	3,579	183	108	1,215	1,215	607
Dresden Raceway	Apr 18, 2001	87	3,826	203	108	1,297	1,297	649
Flamboro Downs	Oct 11, 2000	258	12,187	1,513	791	11,689	11,689	4,334
Fort Erie Race Track	Sep 9, 1999	285	14,058	1,189	1,111	6,113	6,113	1,943
Georgian Downs	Nov 27, 2001	204	8,654	1,080	455	9,216	9,216	4,578
Grand River Raceway	Dec 4, 2003	125	5,726	657	201	3,722	3,722	1,861
Hanover Raceway	Feb 19, 2001	87	3,848	315	110	1,681	1,681	841
Hiawatha Horse Park	May 8, 1999	169	7,593	679	452	3,636	3,636	1,813
Kawartha Downs	Nov 22, 1999	173	7,993	826	450	6,490	6,490	3,245
Mohawk Racetrack	Aug 10, 1999	265	12,296	1,400	852	15,713	15,713	5,632
Rideau Carleton Raceway	Feb 16, 2000	301	14,250	1,592	1,250	12,165	12,165	3,747
Sudbury Downs	Nov 26, 1999	147	6,912	555	343	4,342	4,342	2,171
Western Fair Raceway	Sep 28, 1999	327	13,847	1,279	750	10,273	10,273	3,904
Windsor Raceway	Dec 16, 1998	248	11,617	792	750	5,119	5,119	1,958
Woodbine Racetrack	Mar 27, 2000	691	31,350	4,410	1,947	55,463	55,463	14,939
Woodstock Raceway	Jun 20, 2001	86	3,998	315	112	2,043	2,043	1,022
Totals		**3,767**	**$ 170,828**	**18,138**	**10,040**	**$ 158,787**	**$ 158,787**	**$ 57,549**

* Tracks and horse people each receive 10% of revenue from slots; municipalities receive 5% of revenue from slots up to 450 machines and 2% of revenue from slot machines over 450.

Meeting the Challenges

Ontario's Resort Casinos have realized full status as resort destinations in a year marked by competitive challenges, award-winning recognition and revenues of $1.5 billion.

OLG's Resort Casinos continue to face the challenges of increasing competition and a strengthening Canadian dollar by becoming the highest-quality vacation and entertainment destinations in their markets.

Casino Windsor

Casino Windsor celebrated its 12th anniversary this year as renovations and expansion continued. A consistent winner of regional awards in all major categories, Casino Windsor continues to face increasingly stiff cross-border competition with a commitment to building synergies and strengthening its offerings to customers.

In December, Casino Windsor announced the signing of a Caesars trademark licensing agreement that will rename the casino Caesars Windsor in early 2008 with the completion of a $400-million expansion, which includes a 22-storey hotel tower and a 5,000-seat entertainment centre. In addition to the expansion commitment and the branding investment noted earlier, the Corporation is also investing in the construction of the Windsor Clean Energy Centre, which will provide 'clean and green' electricity, heating and cooling to the entertainment centre and other non-gaming amenities. A new "Total Rewards" program, permitting members to play, earn and redeem rewards at nearly 40 Harrah's Entertainment properties combined with the Caesars brand and unmatched amenities, means Caesars Windsor will earn customer loyalty by offering the region's best casino experience.

The expansion and renovation project that began in 2005 progressed this year with the opening of a spacious new Motorcoach Greeting Area on April 6, 2006. In August, the first portion of the renovated gaming floor reopened – unveiling new games, the latest technology, gorgeous finishes, brightly coloured carpet, spacious aisles and ergonomic seating. The transformation was complete in March 2007. In September, sports fans lined up for the opening of Legends Sports Bar, a sleek new venue that features 36 high-definition displays on which to view the game in three distinct seating areas accommodating 170 sports fans. A hearty selection of stadium-style foods, the largest sports ticker in Canada and modern decor made this the state-of-the-art venue in which to launch OLG's newest sports wagering product, GAME PICKS. The only sports wagering game of its kind in the area, GAME PICKS features four games: CASINO OVER/UNDER, CASINO ODDS, CASINO POINT SPREAD and CASINO PROPS.

Niagara Casinos

National and international events at the Niagara casinos this year have built a great synergy between entertainment for our customers and promotional television coverage.

This year, Fallsview Casino Resort hosted the second annual Degree Poker Championships – the largest free-roll poker tournament in Canada, featuring 3,000 poker players from across the country. The tournament aired in seven shows on The Sports Network (TSN) and TSN HD in September 2006. The casino also co-sponsored the inaugural Ace and Aces Celebrity Golf Classic at the Grand Niagara Resort and invited golfers to a celebrity poker tournament in support of the Niagara Falls City Council Charitable Fund. Event coverage included items in the *Toronto Sun*, *National Post*, *Canadian Press*, Citytv and CHCH-TV. Two World Poker Tour events – the Canadian Open and the North American Poker Championship – held at the casinos also attracted international poker stars. The Canadian Open aired in March 2007; the North American Poker Championship aired in May 2007.

Other attractions included the opening of a Yuk Yuk's comedy club just off the gaming floor at Casino Niagara, which features some of the country's best stand-up comedians every Thursday, Friday and Saturday, and provides a venue for other special events and parties. Fallsview teamed up with the Ontario Ministry of Tourism, the Niagara Parks Commission, the Canadian Tourism Commission and the City of Niagara Falls to host two episodes of *Live with Regis and Kelly*, the popular US television program. Citytv's Breakfast Television featured the resort casino with four "Live Eye" segments in August, covering Fallsview's Hydro-Teslatron water feature, the Avalon Ballroom Theatre, 17 Noir and a Learn-to-Play Texas Hold'Em Poker session. Fallsview partnered with Warner Bros. Pictures and the Niagara Parks Commission to host a special advance screening of the blockbuster *Superman Returns* and hosted a pre-launch party in the 365 Club for popular Canadian band Jacksoul's new album *mySoul* – with the performance taped for broadcast on more than a dozen radio stations across Canada as well as a TV special and DVD.

While reaching out for new audiences, Niagara's casinos continue to participate in and contribute to their own community. More than 750 associates from Fallsview Casino Resort and Casino Niagara gave up personal time to participate in the region's Canadian Cancer Society's Relay for Life. The 12-hour overnight relay walk in support of cancer research raised more than $300,000. Over 400 associates on 17 teams braved torrential downpours to compete in the St. Catharines Dragon Boat Festival on the historic Henley rowing course – raising more than $33,000 in support of Wellspring Niagara and the St. Catharines Museum. Fallsview also hosted the second annual Estée Lauder Girls Sleepover in support of breast cancer research and awareness and donated $15,000 from LeAnn Rimes ticket sales to the Breast Cancer Research Foundation.

Casino Rama

Casino Rama celebrated 10 years of entertainment excellence on July 31, 2006, and the occasion did not go unnoticed. Voted by readers of the *Toronto Sun* as Ontario's Favourite Casino in each of its years, Casino Rama has a lot to celebrate and to acknowledge in its success in keeping customers entertained and coming back year after year.

A reception celebrating 10 Years of Excitement at Casino Rama was held in early August in the Silver Nightingale Ballroom. Casino Rama's senior management team, its Employees of the Year and Chieftain Award recipient were on hand to greet and share champagne toasts with nearly 400 invited guests, including community leaders, key vendors and business partners.

Casino Rama is looking forward to continuing its tradition of success. A long-term, strategic planning process involving all employees – from line staff to executives – began this year, while world-class entertainment continues to attract new and repeat customers. Gracing the stage of the Entertainment Centre this year were some of music and entertainment industries' biggest attractions, including Jon Stewart, Jeff Foxworthy, Dolly Parton, Alan Jackson, Jewel, Ringo Starr, The Four Tops, Foreigner, The Beach Boys, the Imperial Circus of China and the Blue Man Group.

Casino Rama has always been a major contributor to events and services in its surrounding communities. This year, support went to numerous cultural events and institutions such as Mariposa Folk Festival, Leacock Museum Literary Festival, Images Thanksgiving Studio Tour and the Wye Marsh Wildlife Centre as well as to community-based organizations and events, including Green Haven Shelter for Women, Anishnaabe Kwewag Gamig (Native Women's Shelter), the Community Foundation of Orillia and Area Gala and the Hospice Orillia Volunteer Appreciation event.

Management's Responsibility for Annual Reporting

The accompanying consolidated financial statements of the Ontario Lottery and Gaming Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Where required, management has made informed judgments and estimates in accordance with Canadian generally accepted accounting principles.

The Board of Directors oversees management's responsibilities for financial reporting through its Audit and Risk Management Committee, which is composed entirely of directors who are neither officers nor employees of the Corporation. The Audit and Risk Management Committee reviews the financial statements and recommends them to the Board for approval. This Committee meets periodically with management, internal auditors and the external auditors.

To discharge its responsibility, management maintains an appropriate system of internal control to provide reasonable assurance that relevant and reliable consolidated financial statements are produced and that the Corporation's assets are properly safeguarded. The Corporation maintains a staff of internal auditors whose functions include reviewing internal controls and their applications on an ongoing basis. The reports prepared by the internal auditors are reviewed by the committee. The Chief Risk Officer, responsible for Internal Audit and Enterprise Risk Management, reports directly to the Audit and Risk Management Committee.

Grant Thornton LLP and KPMG LLP, the independent auditors appointed by the Board of Directors upon the recommendation of the Audit and Risk Management Committee, have examined the consolidated financial statements. Their report outlines the scope of their examination and their opinion on the consolidated financial statements. The independent auditors have full and unrestricted access to the committee.

Michelle DiEmanuele
Chief Executive Officer [illegible]

May 18, 2007

John Black
Chief Financial Officer

May 18, 2007

Auditors' Report

To the Board of Directors of the Ontario Lottery and Gaming Corporation and to the Minister of Public Infrastructure Renewal:

We have audited the consolidated balance sheet of the Ontario Lottery and Gaming Corporation as at March 31, 2007 and the consolidated statement of income, cash flows, changes in Due to Province of Ontario and equity in capital assets for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants,
Licensed Public Accountants
Toronto, Canada

May 18, 2007

Grant Thornton LLP

Chartered Accountants,
Licensed Public Accountants
Sault Ste. Marie, Canada

May 18, 2007

Consolidated Balance Sheet

As at March 31, 2007, with comparative figures for 2006
(in thousands of dollars)

	2007	2006
Assets		
Current assets		
Cash and cash equivalents (Note 2)	$ 408,076	$ 320,818
Accounts receivable	78,699	48,641
Prepaid expenses and other	59,276	56,744
Current portion of loans receivable (Note 4)	7,482	7,904
	553,533	434,107
Restricted cash (Note 2)	122,400	282,851
Pre-opening and deferred expenditures (Note 3)	5,550	12,081
Loans receivable (Note 4)	49,760	51,833
Capital assets (Note 5)	2,412,353	2,293,833
Goodwill (Note 7)	1,776	–
Assets contributed to Chippewas of Mnjikaning (Note 8)	15,057	16,139
Cash and short-term investments held for First Nations (Note 9)	173,113	156,346
	$ 3,333,542	**$ 3,247,190**
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 384,338	$ 328,691
Due to operators (Note 10)	50,754	48,871
Due to Chippewas of Mnjikaning (Note 10)	2,534	1,138
Due to Government of Canada (Note 18)	6,042	6,361
Deferred revenues	13,366	16,875
Current portion of long-term liabilities (Note 11)	176,974	263,952
	634,008	665,888
Due to First Nations (Note 9)	173,113	156,346
Long-term liabilities (Note 11)	214,747	378,511
Asset retirement obligation	1,165	1,081
Equity		
Due to Province of Ontario	167,174	161,459
Reserves (Note 2)	122,091	233,616
Equity in capital assets	2,021,244	1,650,289
	2,310,509	2,045,364
	$ 3,333,542	**$ 3,247,190**

Commitments (Notes 2, 4, 10 and 13)

Contingencies (Notes 10 and 14)

Subsequent event (Note 10e)

See accompanying notes to consolidated financial statements.

On behalf of the Board

Michael Gough,
Chair

Marlene McGraw,
Director

Consolidated Statement of Income

Year ended March 31, 2007, with comparative figures for 2006
(in thousands of dollars)

	2007	2006
Revenues		
Lotteries and bingo	$ 2,655,607	$ 2,432,673
Resort casinos	1,463,676	1,666,851
Casinos and slots at racetracks	1,965,510	1,924,225
	$ 6,084,793	**$ 6,023,749**
Operating expenses		
Lotteries and bingo	$ 1,919,744	$ 1,699,428
Resort casinos	1,489,268	1,562,424
Casinos and slots at racetracks	1,043,755	1,019,000
	$ 4,452,767	**$ 4,280,852**
Income before the undernoted	**$ 1,632,026**	**$ 1,742,897**
Interest and other income	$ 46,175	$ 42,795
Interest on long-term debt	(26,864)	(33,905)
Foreign exchange gain	16,784	20,012
Net income	**$ 1,668,121**	**$ 1,771,799**

Segmented information (Note 15)

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended March 31, 2007, with comparative figures for 2006
(in thousands of dollars)

	2007	2006
Cash derived from (used in):		
Operations		
Net income	$ 1,668,121	$ 1,771,799
Amortization of capital assets	230,333	208,803
Amortization of non-capital assets	8,098	9,496
Accretion expense	84	71
Loss on disposal of capital assets	10,559	7,728
Change in non-cash working capital:		
Accounts receivable	(30,058)	(6,491)
Prepaid expenses and other	(2,532)	5,153
Accounts payable and accrued liabilities	55,647	50,098
Due to operators	1,883	3,247
Due to Chippewas of Mnjikaning	1,396	(260)
Due to Government of Canada	(320)	(3,294)
Deferred revenues	(3,509)	(1,165)
Net cash from operations	1,939,702	2,045,185
Financing		
Increase in long-term liabilities	–	7,752
Repayments of long-term liabilities	(250,742)	(176,650)
Net cash used in financing activities	(250,742)	(168,898)
Investing		
Due from Falls Management Company	–	3,665
Pre-opening and deferred expenditures	(486)	(3,660)
Issuance of loans receivable	(7,555)	(22,043)
Repayment of loans receivable	10,051	7,585
Capital expenditures	(362,062)	(277,618)
Proceeds on disposal of capital assets	3,374	3,695
Business acquisition (Note 7)	(2,500)	–
Decrease (increase) in restricted cash	160,451	(9,980)
Net cash used in investing activities	(198,727)	(298,356)
Other		
Payments to Province of Ontario	(1,362,566)	(1,486,408)
Distributions to First Nations	(46,044)	(100,820)
Decrease (increase) in due to First Nations	5,635	(314)
Net cash used in other activities	(1,402,975)	(1,587,542)
Increase (decrease) in cash and cash equivalents	87,258	(9,611)
Cash and cash equivalents, beginning of year	320,818	330,429
Cash and cash equivalents, end of year	**$ 408,076**	**$ 320,818**
Supplemental disclosure of cash flow information:		
Cash interest received	$ 19,042	$ 13,336
Cash paid for interest	25,847	34,390

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Due to Province of Ontario

Year ended March 31, 2007, with comparative figures for 2006
(in thousands of dollars)

	2007	2006
Net income	$ 1,668,121	$ 1,771,799
Add (deduct)		
Capital expenditures, net	(348,130)	(266,195)
Amortization of capital assets	230,333	208,803
Business acquisition	(2,500)	–
Accretion expense	84	71
Repayments of long-term liabilities	(250,742)	(176,650)
Increase in long-term liabilities	–	7,752
Distributions to First Nations	(40,409)	(101,134)
Transfers from (to) reserves, net	111,524	(14,782)
	(299,840)	(342,135)
Current year amount due	1,368,281	1,429,664
Payments to Province of Ontario	(1,362,566)	(1,486,408)
Amount due less payments	5,715	(56,744)
Due to Province of Ontario, beginning of year	161,459	218,203
Due to Province of Ontario, end of year	**$ 167,174**	**$ 161,459**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Equity in Capital Assets

Year ended March 31, 2007, with comparative figures for 2006
(in thousands of dollars)

	2007	2006
Balance, beginning of year	**$ 1,650,289**	**$ 1,424,070**
Capital expenditures, net	348,130	266,195
Amortization of capital assets	(230,333)	(208,803)
Business acquisition	2,500	–
Accretion expense	(84)	(71)
Repayments of long-term liabilities	250,742	176,650
Increase in long-term liabilities	–	(7,752)
Balance, end of year	**$ 2,021,244**	**$ 1,650,289**

See accompanying notes to consolidated financial statements.

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

The Ontario Lottery and Gaming Corporation (the Corporation) was established without share capital on April 1, 2000 pursuant to the *Ontario Lottery and Gaming Corporation Act, 1999*. The Corporation is a Crown agency of the Ontario government and is responsible for conducting and managing lottery games, five OLG Casinos and the Great Blue Heron Casino Slot Machine Facility, seventeen slot operations at racetracks and four resort casinos in the Province of Ontario.

The Corporation has entered into operating agreements with Windsor Casino Limited, CHC Casinos Canada Limited, Falls Management Group, L.P. and Great Blue Heron Gaming Company for the operation of Casino Windsor, Casino Rama, Casino Niagara and Fallsview Casino Resort (Fallsview) and the Great Blue Heron Casino Slot Machine Facility, respectively.

The assets, liabilities and operations of the Great Blue Heron Casino Slot Machine Facility are included in these consolidated financial statements. The operating results are included with the results of the casinos and slots at racetracks. These consolidated financial statements do not include other operations carried out at the Great Blue Heron Casino.

1. Significant accounting policies

a) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its 100 per cent owned subsidiary.

In addition, the consolidated financial statements combine the financial position and results of operations of the resort casinos at Casino Windsor, Casino Rama, Casino Niagara and Fallsview, and of the Great Blue Heron Casino Slot Machine Facility.

b) Revenue recognition

Revenue from lottery games, for which results are determined based on a draw, is deferred and recognized when the draw takes place. Revenue from instant games is recognized when the ticket is activated for play by the retailer. Revenue from sports wagering games and bingo gaming is recognized when the ticket is sold to the consumer. Tickets issued as a result of the redemption of free ticket prizes are not recorded as revenue.

Gaming revenue from slot and table game operations represents the net win from gaming activities, which is the difference between amounts earned through gaming wagers less the payouts from those wagers.

Non-gaming revenue includes revenue from hotel, food and beverage, entertainment centre and other services and is recognized at the time the services are rendered to patrons. This also includes the retail value of accommodations, food and beverage and other services provided to patrons on a complimentary basis.

c) Promotional allowances

Promotional allowances include the retail value of accommodation, food and beverage and other goods and services provided on a complimentary basis to patrons. The player clubs at the casinos and slots at racetracks allow patrons to earn points based on the volume of play. These points are accrued as a liability based on estimated redemption and are redeemable for complimentary goods and services and/or cash rebates. Promotional allowances include the value of the points as they are earned.

Promotional allowances also include the retail value of coupons (hotel, food and beverage and other goods and services) and other incentives provided to the patrons when these coupons are redeemed. The retail value of these coupons is included in revenue.

(tabular amounts in thousands of dollars)

The estimated costs of providing these promotional allowances have been included as expenses in the consolidated statement of income.

d) Cash and cash equivalents

Cash equivalents are defined as liquid investments that have a term to maturity at the time of purchase of less than 90 days. As at March 31, 2007, cash and cash equivalents include bank term deposits amounting to $78,700,000 (2006 - $32,900,000) at an interest rate of 4.1 to 4.2 per cent (2006 - 3.6 to 3.7 per cent).

e) Pre-opening and deferred expenditures

Certain expenditures, consisting of compensation, consulting and other costs incurred in connection with the development and opening of gaming sites, are deferred and amortized over three years, commencing with site opening.

Expenditures, consisting of compensation, consulting and other costs incurred with the development of a management information system, are deferred and amortized over a period not exceeding five years. Other deferred expenditures, incurred as a result of the funding of the construction of facilities for the Chippewas of Mnjikaning, are amortized over the term of the related debt.

f) Capital assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

Buildings	10 to 50 years
Furniture and fixtures	2 to 10 years
Leasehold improvements	4 to 15 years
Lottery gaming assets	3 to 7 years
Casino and racetrack slot operations gaming assets	2 to 10 years

Capital assets are amortized when put into use.

Construction in progress and assets not in use are stated at cost. Costs will be amortized commencing upon completion of the related project.

g) Impairment of long-lived assets

Long-lived assets, including pre-opening and deferred expenditures, assets contributed to Chippewas of Mnjikaning, and capital assets, subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset, including cash flows that accrue to the Province of Ontario. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

Assets to be disposed of would be separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer amortized. The asset and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet.

As at March 31, 2007 and March 31, 2006, no impairments in the carrying value of these assets existed, except as disclosed in Note 6.

h) Asset retirement obligations

The Corporation records the fair value of an asset retirement obligation as a liability in the year in which it is incurred and can be reasonably estimated. This liability is associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Corporation also records a corresponding asset that is amortized over the life of the asset. The Corporation has recognized a discounted liability associated with obligations arising from provisions in certain lease agreements regarding the exiting of leased properties at the end of the respective lease terms. The adjustment to leasehold improvements in respect of asset retirement costs is amortized into income on a straight-line basis over the remaining life of the leases.

Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

For the year ended March 31, 2007, the Corporation recorded amortization expense of $227,000 (2006 - $226,000) in the consolidated statement of income. The Corporation recorded a liability of $1,165,000 (2006 - $1,081,000) for the estimated present value of the costs of retiring leasehold improvements at the maturity of the leases and recorded deferred asset retirement costs of $564,000 (2006 - $784,000).

The gross amount of the obligation is $1,299,000 (2006 - $1,285,000), which is expected to be paid out in two to nine years. The credit adjusted risk-free rate is 7 per cent. The accretion expense for the year was $84,000 (2006 - $71,000).

i) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the tangible and intangible assets acquired, less liabilities assumed, based on their fair values. When the Corporation enters into a business combination, the purchase method of accounting is used. Goodwill is assigned as of the date of the business combination to reporting units that are expected to benefit from the business combination.

Goodwill is not amortized but instead is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit, including goodwill, is compared with its fair value. When the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any. As at March 31, 2007, no impairment in the carrying value of this asset existed.

j) Assets contributed to Chippewas of Mnjikaning

Assets contributed to Chippewas of Mnjikaning, consisting primarily of funding for the construction of a community centre, senior centre and certain infrastructure facilities, are amortized over the term of the Casino Rama ground lease.

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

k) Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the year-end exchange rates. Non-monetary assets and liabilities are translated at historical exchange rates. Consolidated statement of income items are translated at the rate of exchange in effect at the transaction date. Translation gains and losses are included in the consolidated statement of income in the period in which they arise.

l) Derivative financial instruments

Casino Rama Inc., a wholly owned subsidiary of the Chippewas of Mnjikaning, is party to certain derivative financial instruments, principally interest rate swap contracts, used to manage its exposure to interest rate fluctuations on the non-revolving term loan (Note 11). Casino Rama Inc. does not enter into financial instruments for trading or speculative purposes. The policy adopted is to formally designate each derivative financial instrument as a hedge of a specifically identified debt instrument. The Corporation believes the derivative financial instruments are effective as hedges, both at inception and over the term of the instrument, as the term to maturity, the (notional) principal amount and the interest rate basis in the instruments all match the terms of the portion of the debt instrument being hedged.

Interest rate swap agreements are used as part of the Corporation's program to manage the fixed and floating interest rate mix of the Corporation's total debt portfolio and related overall cost of borrowing. The interest rate swap agreement involves the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and is recorded as an adjustment of interest expense on the hedged debt instrument. The related amount payable to or receivable from the counterparties is included as an adjustment to accrued interest. The fair value represents the amount that would be paid to terminate or replace the contracts.

Gains and losses on terminations of interest rate swap agreements are deferred on the consolidated balance sheet and amortized as an adjustment to interest expense related to the obligation over the remaining term of the original contract life of the terminated swap agreement. In the event of early extinguishment of the debt obligation, any realized or unrealized gain or loss from the swap would be recognized in the consolidated statement of income at the time of extinguishment.

m) Guarantees

The Corporation has adopted the disclosure provisions related to the Canadian Institute of Chartered Accountants' Accounting Guideline No. 14, "Disclosure of Guarantees." There are no guarantees that require disclosure in the consolidated financial statements.

n) Use of estimates

The preparation of consolidated financial statements requires the Corporation to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses for the year. Significant estimates are used in determining, but are not limited to, the valuation of markers receivable, valuation of loans receivable, the useful lives of all depreciable assets, the recoverability of capital assets and goodwill, unclaimed prize liability, asset retirement obligations, the players club point provision and the outstanding chip, ticket and token liability. Actual results could differ from those estimates.

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

o) Non-monetary transactions

CICA (Canadian Institute of Chartered Accountants) Handbook Section 3831, Non-monetary Transactions, requires that an asset exchanged or transferred in a non-monetary transaction must be measured at its fair value, except when: the transaction lacks commercial substance; the transaction is an exchange of a product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange; neither the fair value of the asset received nor the fair value of the asset given up is reliably measurable; or the transaction is a non-monetary non-reciprocal transfer to owners that represents a spinoff or other form of restructuring or liquidation. In these cases, the transaction must be measured at the carrying value. As at March 31, 2007, the Corporation does not have any non-monetary transactions.

p) Recent Canadian accounting pronouncements

Accounting changes:

In 2006, the CICA issued Handbook Section 1506, Accounting Changes ("CICA 1506"). CICA 1506 prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors. This new standard, to be adopted on April 1, 2007, is not expected to have a material impact on the Corporation's consolidated financial statements.

Financial instruments:

In 2005, the CICA issued Handbook Section 3855, Financial Instruments - Recognition and Measurement, Handbook Section 1530, Comprehensive Income, Handbook Section 3251, Equity, and Handbook Section 3865, Hedges. The new standards are effective for the Corporation's consolidated financial statements commencing April 1, 2007.

The new standards will have the following principal impacts on the Fiscal 2008 consolidated financial statements:

All financial assets will be classified as available-for-sale, loans and receivables or held-to-maturity investments. Available-for-sale investments will be carried at fair value on the consolidated balance sheet, with changes in fair value recorded in other comprehensive income/loss. Loans and receivables, held-to-maturity investments and all financial liabilities will be carried at amortized cost. No financial assets or liabilities will be classified as held-for-trading. The Corporation continues to assess the impact this will have on the Corporation's consolidated balance sheet, including the opening accumulated other comprehensive income/loss.

All derivatives, including embedded derivatives that must be separately accounted for, will be measured at fair value with changes in fair value recorded in the consolidated statement of income. The impact of re-measuring hedging derivatives at fair value at April 1, 2007 will be recognized in opening undistributed earnings and opening accumulated other comprehensive income/loss.

Other comprehensive income/loss will form part of equity. A new statement entitled "Statement of Comprehensive Income/Loss" will be added to the consolidated financial statements and will include net income as well as other comprehensive income/loss.

Capital disclosures:

In 2006, the CICA issued Handbook Section 1535, Capital Disclosures ("CICA 1535"). CICA 1535 requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital inducing disclosures of any externally imposed capital requirements and the consequences for non-compliance. The new standard will be effective for the Corporation commencing April 1, 2008.

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

2. Restricted cash

Included in cash and cash equivalents and restricted cash are the below-noted amounts, which are held in separate accounts.

The Corporation has established cash reserves at the resort casinos in accordance with their respective operating agreements, or other terms as otherwise agreed to, for the following purposes:

i) capital renewals reserves for capital asset additions other than normal repairs or major renovations

ii) operating reserves to satisfy specified obligations in the event that revenue will be insufficient to meet such obligations, and

iii) severance reserve to satisfy certain obligations of the Corporation arising from the termination or layoff of employees of an operator in connection with the termination of an operator.

	2007	2006
Reserves		
Capital renewals	$ 65,348	$ 122,380
Operating	23,729	81,506
Severance	33,014	29,730
	122,091	233,616
Less unrestricted capital renewals	36,827	–
	85,264	233,616
Prize funds on deposit	28,602	31,961
Term loan proceeds	8,534	17,274
	$ 122,400	**$ 282,851**

The unrestricted capital renewal funds represent funds at Casino Windsor that will be utilized in current operations during fiscal 2008, in accordance with the terms of the operating agreement.

On March 30, 2007, capital renewal reserve funds of $34,864,000 and operating reserve funds of $41,265,000 were utilized to repay long-term debt (Note 11).

In fiscal 2008, the Corporation has committed to transferring cash of $95 million and $14 million to Casino Windsor's operating and capital reserves, respectively, to replenish the reserve accounts to the balances specified by the terms of the operating agreement.

Prize funds on deposit are funds set aside representing the estimate of gross prizes outstanding less an estimate for prizes not expected to be claimed by consumers.

Term loan proceeds represent restricted cash that was to be used for construction purposes at Fallsview Casino Resort.

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

3. Pre-opening and deferred expenditures

	Cost	Accumulated Amortization	2007 Net Book Value	2006 Net Book Value
Pre-opening expenditures				
Resort casinos	$ 19,015	$ 17,853	$ 1,162	$ 3,909
Casinos and slots at racetracks	6,813	4,027	2,786	4,699
	25,828	21,880	3,948	8,608
Deferred expenditures	25,699	24,097	1,602	3,473
	$ 51,527	**$ 45,977**	**$ 5,550**	**$ 12,081**

4. Loans receivable

	2007	2006
Loans receivable	$ 60,442	$ 63,637
Less provision for loans receivable	3,200	3,900
	57,242	59,737
Less current portion of loans receivable	7,482	7,904
	$ 49,760	**$ 51,833**

The Corporation has loaned and is committed to loan funds to certain racetrack operators for the purposes of renovating or constructing buildings to accommodate the Corporation's slot machine facilities. Security is provided by mortgages and general security agreements covering the racetrack operators' assets. The loans bear interest based on the Royal Bank of Canada's prime rate and are repayable over periods ranging from one to fifteen years. The amounts will be repaid under an agreed upon formula by withholding from commissions that would otherwise be payable to the racetrack operators. The Corporation has also advanced funds to certain municipalities for purposes of infrastructure improvements. The amounts will be recovered from the municipal commissions otherwise payable.

During fiscal 2006, funds were advanced to a racetrack operator for which the repayment is conditional upon obtaining government approval for the expansion of this property. The borrower's requirement to repay the conditional loan is dependent upon the Corporation providing written notice, within five years of the date of opening of the site (i.e., by March 2011), that an expansion will proceed. As at March 31, 2007 $14,092,000 had been advanced and has been included in loans receivable based on the Corporation's assessment that governmental approval will be obtained and written notice will be provided to the borrower.

The Corporation's maximum remaining commitment as at March 31, 2007 is $1,908,000 to one racetrack operator which relates to the conditional loan referred to in the preceding paragraph and $536,000 to one municipality.

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

5. Capital assets

			2007	2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 137,008	$ –	$ 137,008	$ 139,235
Buildings	1,462,548	157,056	1,305,492	1,286,305
Furniture and fixtures	621,360	426,941	194,419	202,872
Leasehold improvements	562,972	287,519	275,453	302,461
Lottery gaming assets	163,266	103,787	59,479	82,527
Casino and racetrack slot operation gaming assets	583,835	331,819	252,016	223,583
Construction in progress and assets not in use	188,486	–	188,486	56,850
	$ 3,719,475	**$ 1,307,122**	**$ 2,412,353**	**$ 2,293,833**

Amortization for the year was $230,106,000 (2006 – $208,577,000).

6. Asset Impairment Charges

As a result of the review of carrying values, as compared to undiscounted future net cash flows, as set out in Note 1g to the consolidated financial statements, the Corporation has recorded an impairment charge of $1,320,000 (2006 – nil) for certain Bingo revitalization pilot assets. Future cash flows are based on the Corporation's estimate of the operating results of these sites. The charge is included in General and Administration expenses in Note 15 to the consolidated financial statements.

7. Business Acquisition

On March 30, 2007 the Corporation acquired certain assets of a restaurant for cash consideration of $2,500,000. The acquisition was accounted for as the acquisition of a business using the purchase method. The purchase price was allocated to the assets acquired, comprised of capital assets of $724,000, based on their relative fair values at the date of acquisition, with the residual of $1,776,000 allocated to goodwill of the resort casinos.

8. Assets contributed to Chippewas of Mnjikaning

			2007	2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Assets contributed to Chippewas of Mnjikaning	**$ 32,337**	**$ 17,280**	**$ 15,057**	**$ 16,139**

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

9. Cash and short-term investments held for First Nations

	2007	2006
Segregated bank account, beginning of year	$ 150,077	$ 110,821
Distributions to the segregated bank account during the year	16,250	35,620
Interest earned during the year	6,786	3,636
Segregated bank account, end of year	173,113	150,077
Current distribution due to First Nations	–	6,269
	$ 173,113	**$ 156,346**

On June 9, 2000, the Corporation, the First Nations of Ontario and the Province of Ontario entered into a revenue agreement that entitles the Ontario First Nations to the net revenues, as defined, from the operation of Casino Rama. Under the agreement, the Corporation is required to distribute the net revenues from the operation on a monthly basis.

The Casino Rama Revenue Agreement requires that, commencing July 31, 2001, the Corporation retain 35 per cent of the net distributions from Casino Rama in a segregated bank account if the Corporation has not received a joint direction from the Chiefs of Ontario and the Chippewas of Mnjikaning with respect to a new revenue distribution formula. As at March 31, 2007, the Corporation has not received this direction and accordingly has retained 35 per cent of the net distributions in a segregated interest-bearing bank account. This matter is currently the subject of an action brought by the Chippewas of Mnjikaning against the Province of Ontario and the Corporation and until the matter is decided by the Courts or, alternatively, the Chippewas of Mnjikaning and the Chiefs of Ontario reach agreement on a new revenue distribution formula, the Corporation is required to retain these funds.

The payment related to the monthly distribution of the net revenue for March 2006 is included above as a current distribution due to First Nations. Under the terms of the Casino Rama operating agreement, cash in fiscal 2007 was utilized to repay the Casino Rama debt (Note 11).

10. Related party transactions

a) Under the terms of the development and operating agreements for each of the resort casinos and the Great Blue Heron Casino Slot Machine Facility, each operator is entitled to receive an operator's fee calculated as a percentage of gross revenues and as a percentage of net operating margin, both as defined in each of the related development and operating agreements. The operators of the casinos are as follows: Casino Niagara and Fallsview – Falls Management Group, L.P., the general partner of which is Falls Management Company (owned by Niagara Casino Group, L.P., Highland Gaming, Inc., Shiplake Gaming Corporation, Olympic V, Inc. and 3048505 Nova Scotia Company and the sole limited partner of which is Falls Entertainment Corporation; Casino Rama – CHC Casinos Canada Limited, an indirectly wholly owned subsidiary of Penn National Gaming, Inc.); the Great Blue Heron Slot Machine Facility – Great Blue Heron Gaming Company; and Casino Windsor – Windsor Casino Limited (WCL), which is owned equally by Harrah's Entertainment, Inc. and Hilton Hotels Corporation, in each case through wholly owned subsidiaries.

   On December 14, 2006, the Corporation entered into a new operating agreement with Caesars Entertainment Windsor Holding, Inc. (CEWH), one of the shareholders of WCL. Under the terms of the new operating agreement, commencing on the expiry or termination of the current operating agreement, CEWH will succeed WCL as the operator of Casino Windsor until July 31, 2020, subject to earlier termination of the new operating agreement by the Corporation or CEWH upon the occurrence of certain events. The terms of the new operating agreement are substantially similar to those contained in the current operating agreement.

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

At each of the resort casinos, the operator is the employer of the employees working at that resort casino. All payroll and payroll-related costs are charged to the Corporation on a monthly basis, and are expensed in the Corporation's consolidated statement of income.

b) Under the terms of the development and operating agreement for Casino Rama, the Chippewas of Mnjikaning receive an annual fee of $4,500,000, adjusted for inflation, relating to the provision of ongoing operating services. During the year, $5,514,000 (2006 – $5,392,000) was expensed. Other Chippewas of Mnjikaning charges amounting to $7,429,000 (2006 – $6,326,000) were also incurred during the year in connection with snow removal, water, sewer and emergency services. In addition, under the terms of a five-year lease renewal ending July 2011, for the rental of office space, $659,000 (2006 – $594,000) was expensed to a company related to the Chippewas of Mnjikaning. Also, under the terms of an eight-year lease ending July 2011, an annual rental of $313,000, adjusted for inflation, for warehouse space is paid to a company related to the Chippewas of Mnjikaning. During the year, $334,000 was expensed (2006 – $325,000).

On April 30, 2002, an agreement was signed with the Chippewas of Mnjikaning, whereby the Corporation will reimburse the Chippewas of Mnjikaning 75 per cent of the annual operating budget of the fire department, in exchange for fire protection services to the casino complex. This amount is included in other Chippewas of Mnjikaning charges noted above and is defined in the agreement for the period April 1, 2000 to July 31, 2011.

The lands used for the Casino Rama complex are leased by Casino Rama Inc. from Her Majesty the Queen in the Right of Canada under a 25-year lease, which expires in March 2021. Annual rent payable under this lease is $3,500,000, adjusted for inflation, and is paid out of the gross revenues of the Casino Rama complex to the Chippewas of Mnjikaning in accordance with instructions from Indian and Northern Affairs Canada as representative for Her Majesty the Queen. During the year, $4,309,000 (2006 – $4,211,000) was expensed.

The terms of various agreements provide for the designation and leasing of Additional Parking Lands, as defined, by the Chippewas of Mnjikaning to Casino Rama with an annual rent payable of approximately $1,700,000, adjusted for inflation. While the designation and leases are not yet complete, the lands are permitted and currently in use at Casino Rama. During the year, $1,932,000 (2006 – $1,890,000) was expensed.

In May 2006, the Corporation entered into a Letter of Agreement regarding a new eight-month trial process governing the management and administration of leasehold improvement projects at Casino Rama, which require building permits in order to effect and expedite improvements, renovations and repairs at the casino. The Letter of Agreement was finalized in January 2007. Under the terms of this Letter of Agreement, the Chippewas of Mnjikaning contract directly with the contractors selected by the Corporation. During the year, $3,369,000 was paid to the Chippewas of Mnjikaning under this Letter of Agreement for the acquisition of leasehold improvements.

c) Under the terms of the development and operating agreement, the Mississaugas of Scugog Island First Nation receive an amount equal to five per cent of the gross revenue of the Great Blue Heron Casino Slot Machine Facility in consideration for provision of the lands used for the Slot Machine Facility. During the year, $4,836,000 (2006 – $6,279,000) was paid to the Mississaugas of Scugog Island First Nation.

d) Under the terms of the Niagara Falls Permanent Casino Operating Agreement, in a Competitive Environment, as defined, the Operator is entitled to receive additional Operator services fees and an Attractor fee. The Attractor fee is calculated, as defined, to allow for the amortization of the total capital contributions of the Operator to external attractors, to a maximum contribution of $30,000,000. As at March 31, 2007, the Operator's fees, due to the Operator, included an Attractor fee accrual of $8,289,000 (2006 – $8,506,000).

e) Casino Rama is located on reserve lands of the Chippewas of Mnjikaning First Nation under the authority of a 25-year lease (expiring in March 2021) between the Corporation and Casino Rama Inc., a wholly owned subsidiary of the Chippewas of Mnjikaning First Nation.

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

Under the terms of the Casino Rama Revenue Agreement dated June 9, 2000, Ontario First Nations are entitled to the ongoing net revenues, as defined, of Casino Rama, as well as the proceeds from the disposition of the moveable assets, as defined, and remaining undistributed earnings upon the dissolution or windup of Casino Rama.

On March, 15, 2006, Her Majesty the Queen in Right of Ontario, the Corporation and the Ontario First Nations Limited Partnership (OFNLP) entered into a Gaming and Revenue Sharing Agreement-in-Principle (the Agreement). The Agreement is a non-binding agreement and includes financial commitments to be executed if Formal (binding) Agreements were executed and delivered by all parties on or before December 31, 2006 and all other terms and conditions in the Agreement were executed. On December 21, 2006 an extension of the Agreement was signed, extending the deadline for completion of Formal Agreements from December 31, 2006 to March 30, 2007 and on March 30, 2007 a further extension was agreed to with a revised deadline of June 29, 2007 to finalize Formal Agreements, for OFNLP ratification, and completion of all terms and conditions of the Closing Agreement. The OFNLP ratification vote took place on June 18, 2007. The OFNLP did not ratify the Formal Agreements and the negotiations are now concluded.

11. Long-term liabilities

	2007	2006
Casino Rama non-revolving term loan	$ –	$ 107,215
Fallsview Casino Resort loan	391,721	535,248
	391,721	642,463
Less current portion	176,974	263,952
	$ 214,747	**$ 378,511**

a) Casino Rama

In June 2000, the Corporation entered into an agreement relating to the expansion and renovation of Casino Rama. Under the terms of the agreement, the Chippewas of Mnjikaning were responsible for the development, construction and financing of the expansion project at Casino Rama. In addition, Casino Rama Inc., a wholly owned subsidiary of the Chippewas of Mnjikaning, entered into a lending agreement that provided for an $186,560,000 non-revolving term credit facility for the project. The credit facility was fully repaid on March 30, 2007 using funds in the capital renewal reserve, the operating reserve, and the Corporation's operating bank accounts. Interest for the period paid on the credit facility amounted to $6,906,000 (2006 - $7,798,000).

An interest rate swap contract, which matures on June 30, 2007, was entered into on July 6, 2000, with an original notional principal of $125,100,000. The balance under the contract at March 31, 2007, amounted to $62,550,000 (2006 – $75,718,000). The contract results in a fixed rate of 6.68 per cent on the outstanding notional amount. The interest rate risk exposure is limited to the net differential between the variable borrowing rate and the fixed rate under the swap contract, which is approximately 2.3 per cent at March 31, 2007. The net interest rate receivable or payable under the contract is settled quarterly with the counterparty, which is a Canadian chartered bank. On March 30, 2007 the interest rate swap was settled, resulting in a payment of $375,000 representing the fair value at that date. The Corporation recorded the payment as interest expense in the consolidated statement of income.

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

b) Fallsview Casino Resort

In June 2004, the Corporation entered into a loan agreement with the Ontario Financing Authority (Province of Ontario, a related party) for the purchase of the Fallsview Casino Resort from Falls Management Corporation. The initial loan balance of $794,000,000 plus interest is repayable over five years. The loan bears interest at a rate of 4.4 per cent per annum and is unsecured.

The principal loan repayments expected to be made over the next three years are approximately:

2008	$ 176,974
2009	170,867
2010	43,880

12. Financial Instruments

a) Financial Instruments

The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, due from/to Government of Canada, restricted cash, loans receivable, cash and short-term investments held for First Nations, accounts payable and accrued liabilities, due to operators, due to Chippewas of Mnjikaning, due to First Nations and long-term liabilities. The fair value of these financial instruments, excluding loans receivable and long-term liabilities, approximates carrying amounts due to the short maturities of these instruments. The fair value of loans receivable, net of the allowance for loan losses, approximates carrying value and is estimated by discounting the future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit ratings and similar remaining maturities. The fair value of the long-term liabilities approximates carrying value and is calculated by discounting future cash flows using rates currently available for similar terms and maturities.

b) Concentration of Credit Risk

The Corporation has financial instruments that potentially expose it to a concentration of credit risk. The instruments consist of cash and cash equivalents, accounts receivable and loans receivable. Cash equivalents consist of deposits with major commercial banks. Accounts receivable include credit provided to retailers of lottery products and patrons of resort casinos. Loans receivable consist of loans to racetrack operators and municipalities. The Corporation performs ongoing credit evaluations of retailers, patrons, racetrack operators and municipalities and maintains reserves for potential credit losses, which when realized have been within the range of the Corporation's expectations.

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

13. Commitments

a) Obligations under operating leases

The Corporation has entered into several leases for property and equipment. The future minimum lease payments are approximately:

2008	$	21,488
2009		16,506
2010		15,241
2011		10,264
2012		4,851
		68,350
Thereafter		7,216
	$	**75,566**

b) Suppliers

The Corporation has computer hardware maintenance agreements with future payments of approximately:

2008	$	13,397
2009		11,108
2010		11,011
2011		10,719
2012		10,089
		56,324
Thereafter		12,500
	$	**68,824**

c) Casino Windsor

In connection with Casino Windsor, in Windsor, Ontario, and under the terms of an agreement, the Corporation agreed to provide the City of Windsor with a fixed return over 20 years, with payments commencing May 1, 1998 in the amount of $2,600,000 per annum for the first ten years and $3,000,000 per annum for the last ten years.

The Corporation is committed to a redevelopment project at Casino Windsor with a total cost not to exceed $400,000,000. As at March 31, 2007, $204,412,000 (2006 – $74,232,000) has been expended. In December 2006, the Corporation entered into a trademark licence agreement with Caesars World, Inc. (Caesars), a wholly owned indirect subsidiary of Harrah's Operating Company Inc. Under the terms of the trademark licence agreement, Casino Windsor will be rebranded as Caesars Windsor upon the completion of construction relating to the project. The Caesars trademark licence agreement will terminate on July 31, 2020 or on such earlier date as Caesars, or its subsidiary, ceases to be the operator of the Windsor casino complex. Caesars will be paid a licence fee that will be calculated as a percentage of revenue and operating results, as defined, for the Windsor casino complex. Along with the Caesars rebranding, upon the receipt of all regulatory approvals, the Windsor casino complex will introduce several new customer service and marketing programs, including Harrah's Total Rewards customer loyalty program.

The Corporation is committed to the design, construction and commissioning of an energy centre on Casino Windsor property with a total cost not to exceed $50,000,000. As at March 31, 2007, $11,899,000 (2006 – nil) has been expended.

d) Fallsview Casino Resort

In connection with the Fallsview Casino Resort in Niagara Falls, Ontario, and under the terms of an agreement, the Corporation agreed to provide the Corporation of the City of Niagara Falls with payments commencing December 7, 2000 in the amount of $2,600,000 per annum for the first ten years, $3,000,000 per annum for the next ten years and then $3,000,000 per annum, adjusted for Consumer Price Index, as defined in the agreement, thereafter.

14. Contingencies

a) In November 2003, the Ontario First Nations Limited Partnership (the Plaintiff) delivered a statement of claim against the Corporation, Her Majesty the Queen in Right of Ontario and the Chippewas of Mnjikaning First Nation, as defendant parties. The statement of claim alleges that the Province of Ontario wrongfully withheld 20 per cent of the gross revenues from Casino Rama operations. The Plaintiff claims damages in an amount equivalent to 20 percent of the gross revenues of Casino Rama from the time that it opened for operations to the date of judgment plus damages in the amount of $300,000,000. The outcome is undeterminable at this time and no amounts have been accrued in these consolidated financial statements.

b) In November 2003, the Chippewas of Mnjikaning First Nation (the Plaintiff) delivered a notice of claim against the Corporation, her Majesty the Queen in Right of Ontario and CHC Casinos Canada Limited, as defendant parties. The Plaintiff alleges to be the legal and beneficial owner of all capital assets purchased for use in the development and operation of Casino Rama and requires all amounts of retail sales tax that have been paid or accrued in respect of purchases of capital assets be reimbursed. The Plaintiff claims damages in the amount of $21,000,000 against the defendant parties, excluding CHC Casinos Canada Limited, and claims that title to all capital assets purchased for use in the development and operation of Casino Rama be transferred to the Plaintiff. The outcome is undeterminable at this time and no amounts have been accrued in these consolidated financial statements.

c) The Corporation has signed four Bingo Centre Service Provider Agreements (Service Providers) for Bingo Revitalization Project pilot site operations in Barrie, Peterborough, Kingston and Sudbury, Ontario. The contracts provide that, in the event of notification of termination of the Bingo Revitalization Project pilot by the Corporation, or if the Service Providers and the Corporation mutually agree to not renew or extend the Agreement, the Corporation will be required to pay the Service Providers an amount not to exceed $3,013,000 in respect of the Service Providers' capital investments in the Bingo Centres. No events have taken place to indicate that the pilot sites will not continue, and as such, no amounts have been accrued in these consolidated financial statements.

d) Subsequent to year-end, the Corporation and the Interprovincial Lottery Corporation were served with a statement of claim related to a class action for general damages of $1 billion and punitive damages of $1 billion. The statement of claim alleges the Corporation was negligent in the operation and management of its lottery business and that it breached fiduciary and other duties. The action is at a very early stage and the Corporation intends to vigorously defend itself. The outcome is undeterminable at this time and no amounts have been accrued in these consolidated financial statements.

e) The Corporation is, from time to time, involved in various legal proceedings of a character normally incidental to its business. The Corporation believes that the outcome of these outstanding claims will not have a material impact on these consolidated financial statements. Estimates, where appropriate, have been included in these consolidated financial statements; however, additional settlements, if any, concerning these contingencies will be accounted for as a charge to the consolidated statement of income in the period in which the settlement occurs.

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

15. Segmented information

2007	Lotteries & Bingo	Resort Casinos	Casinos & Slots at Racetracks	Total
Revenues				
Lotteries & bingo	$ 2,655,607	$ –	$ –	$ 2,655,607
Slots	–	1,062,784	1,956,998	3,019,782
Tables	–	426,094	55,437	481,531
Non-gaming	–	240,684	28,593	269,277
	2,655,607	1,729,562	2,041,028	6,426,197
Less promotional allowances	–	265,886	75,518	341,404
	$ 2,655,607	**$ 1,463,676**	**$ 1,965,510**	**$ 6,084,793**
Operating expenses				
Non-gaming	$ –	$ 224,678	$ 30,872	$ 255,550
Gaming and lottery operations	101,858	325,913	283,393	711,164
Lottery prizes	1,444,145	–	–	1,444,145
Commissions	192,670	–	392,924	585,594
Marketing and promotion	51,998	143,980	72,894	268,872
Operators' fees (Note 10a)	–	64,500	5,404	69,904
Amortization	30,449	136,669	71,312	238,430
General and administration (Note 6)	34,374	108,973	64,341	207,688
Facilities	7,692	145,408	74,416	227,516
Win contribution (Note 17)	–	297,663	19,266	316,929
Payments to Government of Canada (Note 18)	56,558	41,484	28,933	126,975
	$ 1,919,744	**$ 1,489,268**	**$ 1,043,755**	**$ 4,452,767**
Income before the undernoted	**$ 735,863**	**$ (25,592)**	**$ 921,755**	**$ 1,632,026**
Interest and other income	$ 5,175	$ 22,795	$ 18,205	$ 46,175
Interest on long-term debt	–	(26,864)	–	(26,864)
Foreign exchange gain	3	13,361	3,420	16,784
	$ 5,178	**$ 9,292**	**$ 21,625**	**$ 36,095**
Net income (loss)	**$ 741,041**	**$ (16,300)**	**$ 943,380**	**$ 1,668,121**

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

2006	**Lotteries & Bingo**	**Resort Casinos**	**Casinos & Slots at Racetracks**	**Total**
Revenues				
Lotteries & bingo	$ 2,432,673	$ –	$ –	$ 2,432,673
Slots	–	1,246,365	1,907,369	3,153,734
Tables	–	443,816	59,734	503,550
Non-gaming	–	239,566	30,077	269,643
	2,432,673	1,929,747	1,997,180	6,359,600
Less promotional allowances	–	262,896	72,955	335,851
	$ 2,432,673	**$ 1,666,851**	**$ 1,924,225**	**$ 6,023,749**
Operating expenses				
Non-gaming	$ –	$ 217,780	$ 32,215	$ 249,995
Gaming and lottery operations	96,170	345,896	283,400	725,466
Lottery prizes	1,259,652	–	–	1,259,652
Commissions	171,494	–	373,136	544,630
Marketing and promotion	48,383	144,823	72,009	265,215
Operators' fees (Note 10a)	–	86,311	7,298	93,609
Amortization	25,395	129,946	62,958	218,299
General and administration (Note 6)	33,295	104,573	60,016	197,884
Facilities	7,609	150,668	69,307	227,584
Win contribution (Note 17)	–	338,048	25,048	363,096
Payments to Government of Canada (Note 18)	57,430	44,379	33,613	135,422
	$ 1,699,428	**$ 1,562,424**	**$ 1,019,000**	**$ 4,280,852**
Income before the undernoted	**$ 733,245**	**$ 104,427**	**$ 905,225**	**$ 1,742,897**
Interest and other income	$ 3,346	$ 22,181	$ 17,268	$ 42,795
Interest on long-term debt	–	(33,905)	–	(33,905)
Foreign exchange gain	8	15,840	4,164	20,012
	$ 3,354	**$ 4,116**	**$ 21,432**	**$ 28,902**
Net income	**$ 736,599**	**$ 108,543**	**$ 926,657**	**$ 1,771,799**

16. Post-employment plans

The Corporation contributes pension benefits for all its permanent employees and to non-permanent employees who elect to participate through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees Union Pension Fund (OPSEU Pension Fund), which are multi-employer defined benefit pension plans established by the Province of Ontario. The cost of post-employment benefits is included in the pension contributions made by the Corporation to the PSPF and OPSEU Pension Fund and accordingly the Corporation has no additional liability for these future costs. The Corporation's contribution during the year was $17,019,000 (2006 – $16,795,000).

The operators of the resort casinos have created defined contribution pension plans for their employees. The pension expense for the year amounted to $22,436,000 (2006 – $22,589,000).

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

17. Win contribution

The Corporation remits a contribution to the Province of Ontario equal to 20 per cent of gaming revenue from resort casinos and the Great Blue Heron Casino Slot Machine Facility.

18. Payments to Government of Canada

The Corporation made the following payments to the Government of Canada:

	2007	2006
Payments on behalf of the Province of Ontario	$ 24,748	$ 24,436
Goods and Services Tax	102,227	110,986
	$ 126,975	**$ 135,422**

a) Payments on behalf of the Province of Ontario

The provincial lottery corporations make payments to the Government of Canada under an agreement dated August 1979 between the provincial governments and the Government of Canada. The agreement stipulates that the Government of Canada will not participate in the sale of lottery tickets.

b) Goods and Services Tax

As a prescribed Goods and Services Tax (GST) Registrant, the Corporation makes GST remittances to the Federal Government pursuant to the Games of Chance (GST/HST) Regulations of the *Excise Tax Act*. The Corporation's net tax for a reporting period is calculated using net tax attributable to both gaming and non-gaming activities. The net tax attributable to gaming activities results in a 14 per cent (12 per cent effective July 1, 2006) tax burden on most taxable gaming expenditures incurred by the Corporation. The net tax attributable to non-gaming activities is calculated similar to any other GST registrant in Canada.

19. Comparative amounts

Certain prior year amounts have been reclassified to conform with current year consolidated financial statement presentation.

The Corporation ended the year with consolidated gross revenues in excess of $6 billion. Total net income was $1.7 billion – $104 million or six per cent lower than last year, primarily due to higher commissions, amortization costs and lottery prizes.

Revenues – Fiscal 2007 Compared to Fiscal 2006

The Corporation completed the fiscal year ended March 31, 2007 with net revenues, after the deduction of promotional allowances, of $6 billion. This represented an increase of $61 million as compared to last year due to increased lottery, casinos and slots at racetracks revenues, offset by lower resort casino revenue. Revenues are reported net of promotional allowances, which include the players club expense (a loyalty program whereby patrons earn points based on volume of play) and the retail value of accommodation, food and beverage services and other services provided to patrons on a complimentary basis. Resort casinos direct a greater percentage of their revenue towards promotional allowances and marketing costs in comparison to casinos and slots at racetracks due to a highly competitive market.

Revenue Distribution

				2007 ($ millions)				2006 ($ millions)
	Total Revenues	Less Promotional Allowances	Total Net Revenues	% of Total	Total Revenues	Less Promotional Allowances	Total Net Revenues	% of Total
Lotteries & Bingo	$ 2,656	$ –	$ 2,656	44%	$ 2,433	$ –	$ 2,433	40%
Resort Casinos	1,730	266	1,464	24%	1,930	263	1,667	28%
OLG Casinos & Slots	2,041	76	1,965	32%	1,997	73	1,924	32%
Total	**$ 6,427**	**$ 342**	**$ 6,085**	**100%**	**$ 6,360**	**$ 336**	**$ 6,024**	**100%**

Lottery and Bingo

Lottery and bingo revenues, reported before the deduction of prizes, contribute the largest portion of the Corporation's revenue, with fiscal 2007 revenues of $2.7 billion – $223 million or nine per cent ahead of last year. The growth in revenue is primarily attributable to improved INSTANT product performance, which contributed $120 million to the year-over-year increase. More frequent new INSTANT product offerings combined with an increased INSTANT payout – consistent with the INSTANT ticket rejuvenation strategy – accounted for much of the increase in sales.

Online game revenues also increased as compared to last year, with LOTTO SUPER 7 and LOTTO 6/49 revenues $22 million and $18 million above last year, respectively, as a result of higher jackpots. LOTTO 6/49 experienced three jackpots of $30 million or more in the year, compared to only two last year. LOTTO SUPER 7 had two bonus jackpot sequences this year, reaching $30 million and $32 million, compared to only one large jackpot of $25 million in fiscal 2006. Revenue from sports lotteries, another form of online gaming, increased $29 million as compared to last year, due primarily to game enhancements, which allowed wagering on hockey players (which was not offered last year), World Cup Soccer and the impact of the resumption of the professional hockey season following the 2004–05 lockout. The lockout negatively impacted last year's revenues as no professional hockey was being played in April, May and June of 2005, the beginning of the last fiscal year.

A total of $26 million of the year-over-year revenue increase was attributable to a full year of operations of four Bingo Revitalization pilot sites. The Corporation launched a Bingo Revitalization program in fiscal 2006, introducing electronic bingo on computer terminals or hand-held devices, along with the traditional paper bingo card option. The first site was launched on September 28, 2005 in Barrie, Ontario; the last was launched on January 24, 2006 in Sudbury, Ontario.

Resort Casinos

Total resort casino revenue was $1.5 billion, a decrease of $203 million as compared to last year. This is the first year that resort casino revenues have declined following two consecutive years of increases (due in part to the opening of Fallsview Casino Resort [Fallsview] in June 2004). The decline was partially attributable to the impact of the provincial non-smoking legislation, implemented on May 31, 2006, and the impacts of a strong Canadian dollar. In June 2006, the Canadian dollar achieved a historical high of $0.9099 and as at March 31, 2007 the dollar was at $0.8661. All three border facilities – Casino Niagara, Fallsview and Casino Windsor – have a large US patron base, thereby making them vulnerable to a strengthening Canadian dollar, in addition to the impacts of perceived border-crossing delays, increased uncertainty around passport requirements and rising gasoline prices.

At Casino Windsor, the added disruption of patron traffic caused by the $400 million expansion and renovation project contributed to a decline of $112 million in net revenues over the previous year. The project, aimed at renovating certain existing amenities at the casino and adding a number of non-gaming amenities, has been underway for over two years now, with various components coming on stream as completed. Once completed, Casino Windsor will be positioned as a major-destination resort casino, able to rival the best casino resorts in North America. The expansion and renovation at Casino Windsor is one of four major casino redevelopment projects currently underway in the Detroit/Windsor market. Across the border, both MGM Grand Detroit's new US$765-million casino and MotorCity's US$275-million expansion project will open in late 2007, while Greektown Casino's US$200-million expansion project is scheduled to open late in 2008.

In fiscal 2007, Casino Windsor's market share fell to approximately 18 per cent, down from 23 per cent the previous year. This was the first year in which Casino Windsor ranked fourth in the Detroit/Windsor market, behind MGM Grand Detroit (31 per cent), MotorCity Casino (30 per cent) and Greektown Casino (21 per cent).

Casino Niagara and Fallsview achieved combined net revenues of $643 million, $41 million less than last year, as both faced the challenges common to all border facilities. While Casino Niagara's revenues were below the prior year, some successful marketing initiatives helped to boost Fallsview's revenues slightly ahead of the prior year.

Casino Rama's revenue also declined, with net revenues $51 million below fiscal 2006, due in part to the implementation of the provincial non-smoking legislation.

OLG Casinos and Slots at Racetracks

The casinos and slots at racetracks, including the slot operations at the Great Blue Heron Casino, finished the year with net revenues of $2.0 billion, which was $41 million higher than last year. The increase is primarily due to the March 2006 opening of OLG Slots at Ajax Downs, which contributed an additional $79 million in revenue compared to the prior year. OLG Slots at Woodbine Racetrack experienced revenue growth of $21 million this fiscal, the result of a full year of slot expansion (which entailed the addition of 237 slot machines to the facility in the fall of 2005) and the implementation of Ticket In – Ticket Out (TITO) slot machines. The TITO initiative not only provides an enhanced play experience, but it also enables a refresh of slot machine games, keeping them current and fresh for customers. All facilities should be fully TITO enabled by December 2007.

A number of municipalities had already introduced non-smoking legislation in prior years, well in advance of the provincial legislation, and as a result the majority of the casinos and slots at racetracks were already operating in a non-smoking environment prior to May 2006. However, the provincial non-smoking legislation introduced in May 2006 impacted the results at Great Blue Heron Casino, OLG Slots at Fort Erie Race Track, OLG Slots at Windsor Raceway, OLG Casino Thousand Islands and OLG Slots at Georgian Downs, with these five sites experiencing a combined $82 million year-over-year decline in revenue. In addition, the strong Canadian dollar negatively impacted the border properties as the volume of play from US patrons decreased.

Strategies and Plans

The strong Canadian dollar and additional competition for border locations will continue to challenge the Corporation's border properties and their market share. The Corporation, however, continues to look for new ways to increase revenues in a responsible manner while at the same time focusing on increased operational efficiencies and cost reductions.

Lottery and Bingo

In October and November 2006, the Canadian Broadcasting Corporation aired two investigative reports on its program *the fifth estate*, which called into question the Corporation's policies relating to insider wins and the frequency at which members of the Corporation's retailer network win prizes. OLG reviewed its information relating to insider wins and also engaged independent audit firm KPMG to review the Corporation's practices with respect to insider wins. To this end, the Corporation introduced the 7-Point Trust and Security Action Plan comprising measures to restore the public's confidence in the integrity of OLG's lottery games and to reinforce the reputation of the Corporation's lotteries as among the most secure and stringently administered in North America. The plan calls for:

1. installing ticket checker devices at every lottery terminal location in Ontario, and enabling those devices to show if a ticket is a winner and the value of the prize;
2. requiring lottery retailers to ask consumers to sign their lottery tickets before checking them;
3. enhancing the Corporation's retailer video screens to display to the players in larger letters and numbers if they have won a prize and the amount of the prize;
4. conducting a public education campaign to help consumers protect themselves when they are checking their tickets for wins;
5. adding an option on the Corporation's toll-free telephone line that will allow customers to provide to the Corporation ideas on additional security measures;
6. investigating every win of $10,000 or more by lottery retailers (the previous threshold was $50,000); and
7. working to improve the existing complaints process and investigation procedures to ensure that all allegations of impropriety are handled effectively.

The Ombudsman of Ontario launched an own-motion investigation into how the Corporation protects the public from fraud and theft. The Corporation co-operated with the review, recognizing the need for maintaining the highest level of public confidence and trust in the province's lottery program. The three reports issued by KPMG, containing 40 recommendations, were submitted to the Ombudsman as part of his investigation.

The Ombudsman's report was released in March 2007. The Corporation has made significant progress in the development of new processes, policies and operations which address the 60 recommendations made by the Ombudsman and KPMG to strengthen the entire lottery system. Specific attention is being applied to changing the culture of the entire organization to ensure long-term focus on public trust. In addition, the Corporation will complete each of the items in its 7-Point Trust and Security Action Plan. The most significant initiative completed to date was the installation of more than 6,000 self-serve ticket checkers as of March 31, 2007 at the Corporation's online lottery ticket retailers.

In connection with the Ombudsman's report, the Ontario Provincial Police (O.P.P.) has initiated a review of the Corporation's investigations files on insider wins. The Corporation is fully co-operating with the O.P.P.

In February 2007, the government announced the extension of the Corporation's Bingo Revitalization program into new pilot markets, beginning with Windsor. Other test markets could include Thunder Bay, the Niagara region, Sarnia, Point Edward, Cornwall and Mississauga, Ontario. With this announcement, the Corporation plans to roll out electronic bingo to additional bingo gaming facilities.

The Corporation's Bingo Revitalization program's primary mandate is to sustain funding for charitable organizations, which rely heavily on bingo gaming revenues for their various causes, by improving on the entertainment experience for bingo players across Ontario. To do so, the Corporation aims to assist the bingo industry in the development of competitive customer service programs, upgrading facilities and implementation of technology to enhance the bingo games. The Corporation's objectives related to the Bingo program are to:

- preserve and enhance charitable revenues as much as possible while maintaining a local funding process and a meaningful role for the thousands of participating charities across Ontario
- sustain the business health of commercial service providers as much as possible, while maintaining integrity and accountability with added responsibilities for fair return
- maintain existing municipal roles and revenue stream as much as possible, and
- over time, at the very minimum, achieve cost recovery for the Corporation as much as possible.

Resort Casinos

The $400 million Casino Windsor expansion and redevelopment project, underway since 2005, is progressing well with several major phases completed and in operation as of March 31, 2007. The project entails an expansion of non-gaming amenities, including the addition of a 5,000-seat theatre, 100,000 square feet of convention space, a 400-room hotel tower and expanded food and beverage operations. The majority of the renovations to the existing casino have been completed, including the Market Buffet, the bus waiting area and Legends Sports Lounge, along with construction of the Sky Bridge, the link connecting the entertainment centre to the existing casino. Construction on the entertainment centre, convention space and hotel tower is progressing rapidly. Construction also commenced in fiscal 2007 on the Windsor Clean Energy Centre (WCEC). The WCEC will provide electricity, heating and cooling to the entertainment centre and other non-gaming amenities, with the ability to sell up to 66 per cent of its "clean, green" electricity back into the under-supplied City of Windsor grid. Both the Casino Windsor expansion and redevelopment project and the WCEC have experienced cost increases due to labour strikes incurred in early fiscal 2008 and increased construction material costs. The WCEC is expected to be completed by the end of March 2008, while completion of the expansion and redevelopment project is anticipated by the end of June 2008.

Upon completion of the expansion and renovation project, Casino Windsor will be rebranded as Caesars Windsor pursuant to a new operating agreement entered into on December 14, 2006 with Caesars Entertainment Windsor Holding, Inc. (CEWH). Under the terms of the new operating agreement, CEWH will succeed Windsor Casino Limited (WCL) as the operator of Casino Windsor until July 31, 2020.

The combined Niagara properties are planning for the addition of new amenities and programs in the upcoming fiscal year. Plans call for an expansion of the spa facilities and additional dining offerings, including an Italian restaurant and a deli. Also planned are renovations to the parking garage and additional overflow parking. Increased promotional offerings are planned to combat the combined impacts of non-smoking legislation, a strong Canadian dollar and competition from Seneca Niagara.

In late March 2007, the Ontario government committed $35 million to the proposed 230,000-square-foot Niagara Convention and Civic Centre, a $92 million project that also calls for financial commitments from the federal government, Falls Management Group, the Region of Niagara, the City of Niagara Falls and Fallsview Business Improvement Area (BIA). The Niagara Falls BIA has estimated that the project will generate 73,000 to 133,000 new visitors to OLG's Niagara casino resorts over the first five years of operation, with annual incremental gaming revenue of $10 to $15 million.

Casinos and Slots at Racetracks

The implementation of TITO technology at casinos and slots at racetracks continues, and all sites should be TITO-enabled by December 2007. This conversion reflects the Corporation's ongoing commitment to improved customer service and operational efficiency.

Expenses – Fiscal 2007 Compared to Fiscal 2006

Expense Distribution

		2007 ($ millions)		2006 ($ millions)
	Operating Expenses	% of Total	Operating Expenses	% of Total
Lotteries & Bingo	$ 1,920	43%	$ 1,700	40%
Resort Casinos	1,489	33%	1,562	36%
OLG Casinos & Slots	1,044	24%	1,019	24%
Total	**$ 4,453**	**100%**	**$ 4,281**	**100%**

Non-Gaming

Non-gaming expenses include the expenses of providing complimentary services such as food, bar, hotel, entertainment centre, coat check and valet parking to patrons of casinos and slot operations. Non-gaming expenses increased by $6 million this fiscal year, to a total of $256 million. This increase is directly attributable to the entertainment expenses at Casino Rama and the Niagara properties associated with an increase in the number of events, implemented as part of the mitigation strategies to combat the impact of the higher Canadian dollar and provincial non-smoking legislation.

Gaming and Lottery Operations

Gaming and lottery operations expenses, which include direct operational expenses such as personnel, lottery ticket printing, telecommunications, terminal maintenance expenses and slot machine and table operational expenses, are $711 million, $14 million lower than the previous year, primarily due to payroll savings at Casino Windsor, where staffing levels were adjusted to correspond with lower patronage.

Lottery Prizes

Lottery prize expenses increased this year by $184 million to $1.4 billion, a result of higher sales and higher prize payouts. Lottery prize expenses vary according to the mix of product revenues and the jackpot levels achieved. Prize payouts for INSTANT products increased, which was consistent with the INSTANT Growth Strategy. As a percentage of sales, prizes increased over last year due to an additional $38 million of guaranteed jackpot funding required for LOTTO SUPER 7 and LOTTO 6/49. As well, an increase in the percentage of sales attributable to INSTANT products, which typically have a higher payout percentage, contributed to the higher prizes.

Commissions

Commissions – fees paid to lottery retailers, bingo hall operators, municipalities, racetrack owners and horse people – are $586 million this year, $41 million higher than the previous year. Commission fees are calculated as a percentage of revenue, as per the terms of various agreements. Increased sales and a change in lottery product mix (more higher-commissioned INSTANT products) resulted in higher retailer commission expenses. The opening of OLG Slots at Ajax Downs resulted in higher overall revenues for casinos and slots at racetracks, driving higher municipal, racetrack owner and horse-people commissions.

Marketing and Promotion

Total marketing and promotion expenses of $269 million are $4 million higher than last year. This expense category includes the expenses of shuttle buses, signage, direct mail, miscellaneous prizes, promotional items and payroll expenses associated with various marketing departments, as well as newspaper, radio and television advertising. Total lottery and bingo marketing expenses of $52 million were $4 million higher than last year due to an increase in television advertising and corporate rebranding expenses, in part related to the Sign Your Ticket consumer awareness campaign and the February 2007 launch of the new national online lottery product, MILLIONAIRE LIFE.

Operators' Fees

Total operators' fees paid to third-party operators of the resort casinos and the slot operations at Great Blue Heron Casino, under the terms of their respective operating agreements, were $70 million. This represents a year-over-year decrease of $24 million and is directly attributable to decreased revenues and profit, consistent with the terms of the operator agreements.

Amortization

Fiscal 2007 amortization expense is $238 million, an increase of $20 million when compared to last year. This is attributable to capital acquisitions, including the refreshment of slot machines with changes to game themes, additional slot denominations, etc. ($8 million), the conversion of slot machines to enable TITO functionality ($4 million), changes in the useful life of certain assets ($3 million), the opening of OLG Slots at Ajax Downs ($1 million) and the completed portions of the Casino Windsor expansion project ($1 million).

General and Administration

General and administration expenses for the year are $208 million, up $10 million from last year. This category includes the cost of centralized corporate services provided by Finance, Administration, Human Resources, Information Technology, Legal, Corporate Security and Surveillance, Executive Services and Internal Audit departments. The overall increase is primarily related to higher payroll expenses as a result of a full year's impact of new hires in the fiscal 2006, salary increases and new hires in fiscal 2007.

Facilities

Facilities expenses include the expenses of maintaining and operating facilities. They also include property taxes, insurance and the expenses of common areas at OLG slot facilities. Total expenses for fiscal 2007 are $227 million, which is comparable to last year. The increase in common-area expenses at OLG slot facilities was primarily due to last year's favourable impact of the common-area settlement reached at OLG Slots at Mohawk Racetrack. This was partially offset by lower property taxes and utilities expenses at the Niagara properties, which decreased as a result of lower property tax and utility rates in that municipality.

Win Contribution

The win contribution of $317 million paid to the Province of Ontario is calculated at 20 per cent of the gaming revenue from each of the resort casinos and the slot operations at the Great Blue Heron Casino. The decrease of $46 million from the prior year is a direct result of lower gaming revenues during the year.

Payments to the Government of Canada

Payments to the Government of Canada include Goods and Services Tax (GST) as well as payments made on behalf of the Province of Ontario under an agreement between provincial governments and the Government of Canada whereby the federal government agrees not to participate in the sale of lottery tickets. The net decrease of $8 million to $127 million is primarily due to a lower GST expense, attributed to the decline in the GST rate in July 2006 (from an effective rate of 14 per cent to 12 per cent) and a GST refund related to the transfer of racetrack leasehold improvement from the Corporation to its wholly owned subsidiary, Ontario Gaming Assets Corporation.

Interest and Other Income

Interest and other income of $46 million in the current year is $3 million above last year. This category includes bank interest income, interest income on funds loaned to certain racetrack operators or municipalities, automated teller machine (ATM) revenue and credit card commissions. The year-over-year increase is the result of higher interest rates on bank and loan receivable balances (which have interest rates tied to the prime lending rate).

Interest on Long-Term Debt

Interest on long-term debt of $27 million is $7 million lower than last year as a result of lower principal balances. This category represents interest paid on debt incurred to finance the Casino Rama expansion project (which was fully repaid on March 30, 2007) and the Fallsview casino.

Foreign Exchange Gain

Foreign exchange gain, predominantly from buying and selling US dollars at border properties, is $17 million, which is $3 million below last year, commensurate with the lower gaming revenues experienced at the border sites.

Net Income

			2007 ($ millions)			2006 ($ millions)
		Net Income	% of Total		Net Income	% of Total
Lotteries & Bingo	$	741	44%	$	737	42%
Resort Casinos		(16)	-1%		109	6%
OLG Casinos & Slots		943	57%		927	52%
Total	**$**	**1,668**	**100%**	**$**	**1,773**	**100%**

Net income of $1.7 billion is $105 million less than last year. Resort casinos' net income decreased from $109 million in 2006 to a loss of $16 million in 2007, commensurate with the decline in revenue. This unfavourable year-over-year variance was partially offset by higher casinos and slots at racetracks net income, which increased $16 million in 2007, compared to 2006, as a result of higher revenues. In addition, lotteries and bingo net income increased by $4 million due to higher revenues, which were nearly offset by higher prizes and commissions.

Risk Management

The Corporation approaches the management of risk strategically, keeping in mind the need to balance generating profits with our commitment to responsible gaming. The Audit and Risk Management Committee of the Board of Directors, as part of its oversight role, is responsible for ensuring that the Corporation identifies and manages risk to acceptable levels.

For fiscal 2007, the Corporation continued the practice of conducting an annual risk assessment and reporting the status of action plans to the Audit and Risk Management Committee on a quarterly basis. Prospectively, in the continuing development of its Enterprise Risk Management framework, the Corporation intends to assess risks on a more frequent basis, with the Audit and Risk Management Committee participating in risk identification and prioritization.

Liquidity and Capital Resources

Cash derived from (used in):		2007 ($ millions)		2006 ($ millions)
Operations	$	1,940	$	2,045
Financing		(251)		(169)
Investing		(199)		(298)
Other activities		(1,403)		(1,588)
Increase (decrease) in cash and cash equivalents	**$**	**87**	**$**	**(10)**

Cash generated from operations for the fiscal year ended March 31, 2007 was $1.9 billion, $105 million lower than last year primarily due to higher commissions, amortization costs and lottery prizes.

The amount expended on financing was $251 million, which includes repayment of a bank loan secured to acquire the Fallsview casino and a bank loan secured to finance the expansion project at Casino Rama. The initial loan of $794 million to acquire Fallsview was provided in fiscal 2005 and is repayable over five years at an interest rate of 4.4 per cent per annum. The loan to finance the expansion project at Casino Rama was fully repaid on March 30, 2007 using funds in the capital renewal reserve, the operating reserve, and the Corporation's operating bank accounts.

The amount expended on investing activities, which include capital acquisitions and construction activities, is $199 million, $99 million less than last year. The most significant investments this year included the expenses related to the expansion and redevelopment project at Casino Windsor, expenses associated with the Caesars rebranding at Casino Windsor, slot machine refreshments and the rollout of TITO functionality at our gaming sites. For fiscal 2008, the most significant capital expenditures anticipated are the continued expansion and redevelopment project at Casino Windsor, construction of the Windsor Clean Energy Centre, refreshment of slot machines and the completion of the slot machine conversion to enable TITO functionality at OLG Casinos and Slots, and expansion of the Bingo Revitalization pilot program.

Direct payments to the Province of Ontario are $1.4 billion, $123 million lower than last year. These payments represent net income adjusted for working capital requirements and capital expenditures. The following schedule summarizes cash payments to the Province of Ontario in the year, exclusive of Ontario Financing Authority (OFA) principal repayments.

Cash Payment Source		2007 ($ millions)		2006 ($ millions)
Direct payments to Province	$	1,363	$	1,486
Win contribution		317		363
Interest on OFA loan (Fallsview)		19		27
Direct cash payments to the Province	**$**	**1,699**	**$**	**1,876**

Critical Accounting Policies

The Corporation's accounting policies, which are disclosed in the Significant Accounting Polices note (Note 1 of the consolidated financial statements), are in accordance with Canadian generally accepted accounting principles and are applied on a consistent basis. High-quality financial statements require rigorous application of accounting policies. Management uses judgment in selecting policies for which alternative methods exist and in the application of those accounting policies. The polices discussed below are considered by management to be critical to an understanding of the Corporation's consolidated financial statements because their application places the most significant demands on management's judgment, and financial-reporting results rely on estimates about the effects of matters that are inherently uncertain. The estimates used by management are based on historical experience and on various other assumptions that management believes to be reasonable under the circumstances. The results of the Corporation's ongoing evaluation of these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amounts for revenue and expenses. Specific risks for these critical accounting policies are described in the following paragraphs. For all of these policies, management cautions that future events rarely develop precisely as forecast, that the best estimates routinely require adjustments and that these adjustments may have a material impact on the Corporation's financial condition.

Promotional Allowances

Promotional allowances include the retail value of accommodation, food and beverage and other goods and services provided on a complimentary basis to patrons. The player clubs at the casinos and slot facilities allow patrons to earn points based on the volume of play. These points are accrued as a liability based on estimated redemption and are redeemable for complimentary goods and services and/or cash rebates. Promotional allowances include the value of the points as they are earned.

Promotional allowances also include the retail value of coupons (hotel, food and beverage and other goods and services) and other incentives provided to patrons when these coupons are redeemed. The retail value of these coupons is included in revenue.

The estimated costs of providing these promotional allowances have been included as expenses in the consolidated statement of income.

Unclaimed and Expired Prizes

Prize liabilities and prize expense are reported net of management's estimate of unclaimed and expired prizes (prizes that will ultimately be unclaimed and expire). These estimates are calculated as a percentage of cash prizes and are based on historical sales and unclaimed and expired prize experience. These estimates are reviewed by management on a monthly basis. Adjustments are made upon prize expiry.

Capital Assets

Major capital expenditures with useful lives beyond the current year are capitalized at cost and amortized on a straight-line basis according to their estimated useful lives, as follows:

Buildings	10 to 50 years
Furniture and fixtures	2 to 10 years
Leasehold improvements	4 to 15 years
Lottery gaming assets	3 to 7 years
Casinos and racetrack-slot operations gaming assets	2 to 10 years

Estimated useful lives are based on experience and current technology, which may be extended through capital and maintenance programs. Estimated useful lives are reviewed periodically.

Capital assets are amortized when put into use.

Construction in progress and assets not in use are stated at cost. Costs will be amortized commencing on completion of the related project.

Impairment of Long-Lived Assets

Long-lived assets, including pre-opening and deferred expenditures, assets contributed to Chippewas of Mnjikaning, and capital assets, subject to amortization, are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset, including cash flows that accrue to the Province of Ontario. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized as the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Assets to be disposed of would be separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer amortized. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet.

As a result of the review of carrying values, as compared to undiscounted future net cash flows, the Corporation has recorded an impairment charge of $1.3 million for certain Bingo Revitalization pilot program assets. Future cash flows are based on the Corporation's estimate of the operating results of these sites.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the tangible and intangible assets acquired, less liabilities assumed, based on their fair value. When the Corporation enters into a business combination, the purchase method of accounting is used. Goodwill is assigned as of the date of the business combination to reporting units that are expected to benefit from the business combination.

Goodwill is not amortized but instead is tested for impairment annually, or more frequently if events or changes in circumstance indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit, including goodwill, is compared with its fair value. When the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any. As at March 31, 2007 no impairment in the carrying value of this asset existed.

Assets Contributed to Chippewas of Mnjikaning

Assets contributed to Chippewas of Mnjikaning, consisting primarily of funding for the construction of a community centre, senior centre and certain infrastructure facilities, are amortized over the term of the Casino Rama ground lease.

Recent Canadian Accounting Pronouncements

Accounting Changes

In 2006, the Canadian Institute of Chartered Accountants issued Handbook Section 1506, Accounting Changes (CICA 1506). CICA 1506 prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors. This new standard, to be adopted on April 1, 2007, is not expected to have a material impact on the Corporation's consolidated financial statements.

Financial Instruments

In 2005, the CICA issued Handbook Section 3855, Financial Instruments – Recognition and Measurement, Handbook Section 1530, Comprehensive Income, Handbook Section 3251, Equity, and Handbook Section 3865, Hedges.

The new standards are effective for the Corporation's consolidated financial statements commencing April 1, 2007.

The new standards will have the following principal impacts on the fiscal 2008 consolidated financial statements:

- All financial assets will be classified as available-for-sale, loans and receivables or held-to-maturity investments. Available-for-sale investments will be carried at fair value on the consolidated balance sheet, with changes in fair value recorded in other comprehensive income/loss. Loans and receivables, held-to-maturity investments and all financial liabilities will be carried at amortized cost. No financial assets or liabilities will be classified as held-for-trading. The Corporation continues to assess the impact this will have on the Corporation's consolidated balance sheet, including the opening accumulated other comprehensive income/loss.
- All derivatives, including embedded derivatives that must be separately accounted for, will be measured at fair value with changes in fair value recorded in the consolidated statement of income. The impact of remeasuring hedging derivatives at fair value at April 1, 2007 will be recognized in opening undistributed earnings and opening accumulated other comprehensive income/loss.
- Other comprehensive income/loss will form part of equity. A new statement, titled Statement of Comprehensive Income/Loss, will be added to the consolidated financial statements and will include net income as well as other comprehensive income/loss.

Capital disclosures

In 2006, the CICA issued Handbook Section 1535, Capital Disclosures (CICA 1535). CICA 1535 requires that an entity disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital inducing disclosures of any externally imposed capital requirements and the consequences for non-compliance. The new standard will be effective for the Corporation commencing April 1, 2008.

Key Performance Indicators

The Corporation continues to focus its efforts on maximizing operational efficiencies and optimizing profits. In order to achieve this goal, the key performance indicators (KPIs) are useful tools for assessing critical expenses relative to revenue.

	Fiscal 2007	Fiscal 2006
Adjusted EBIDA margin *		
Lotteries & Bingo	63.5%	64.9%
Resort Casinos	25.3%	31.1%
OLG Casinos & Slots	50.3%	50.4%
Marketing as a % of gaming revenue **		
Lotteries & Bingo	4.1%	4.2%
Resort Casinos	26.9%	24.5%
OLG Casinos & Slots	6.3%	6.3%
Payroll as a % of total revenue ***		
Lotteries & Bingo	2.0%	2.1%
Resort Casinos	31.1%	28.4%
OLG Casinos & Slots	15.1%	15.7%

* The Adjusted EBIDA represents earnings before interest expense, win contribution, depreciation and amortization as a per cent of total revenue. EBIDA margin is a common measure used in the gaming industry. OLG adjusts EBIDA by adding back win contribution to ensure comparability of profitability margins across divisions and with other gaming organizations.

** Marketing expenses include promotional allowances, promotions, advertising and corporate marketing. These expenses are divided by gaming revenue. Gaming revenue includes revenue from lottery and bingo games as well as slot and table-game operations, but excludes all non-gaming revenue.

*** Payroll as a percentage of total revenue is derived by dividing payroll and benefit expenses by total revenue.

Both marketing and payroll indicators represent key cost drivers of the Corporation.

Reconciliation of Adjusted EBIDA to Net Income as Referenced in Note 15

The items listed represent the income and expense amounts required to reconcile adjusted EBIDA with net income as defined under Canadian generally accepted accounting principles (GAAP). The following information should be read in conjunction with Note 15 of Consolidated Financial Statements.

2007	Lotteries & Bingo	Resort Casinos	OLG Casinos & Slots	Total
Adjusted EBIDA	$ 772,083	$ 446,415	$ 1,033,831	$ 2,252,329
Amortization	(30,449)	(136,669)	(71,312)	(238,430)
Interest expense		(26,864)		(26,864)
Win contribution		(297,663)	(19,266)	(316,929)
Reallocation of shared support services	(593)	(1,519)	127	(1,985)
Net income as referenced in Note 15	**$ 741,041**	**$ (16,300)**	**$ 943,380**	**$ 1,668,121**

2006	Lotteries & Bingo	Resort Casinos	OLG Casinos & Slots	Total
Adjusted EBIDA	$ 762,500	$ 612,478	$ 1,015,460	$ 2,390,438
Amortization	(25,395)	(129,946)	(62,958)	(218,299)
Interest expense		(33,905)		(33,905)
Win contribution		(338,048)	(25,048)	(363,096)
Reallocation of shared support services	(506)	(2,036)	(797)	(3,339)
Revenue as referenced in Note 15	**$ 736,599**	**$ 108,543**	**$ 926,657**	**$ 1,771,799**

The allocation of shared support services is removed when determining adjusted EBIDA as these items are deemed to be outside the scope of control of divisional management and are, therefore, excluded from internal profitability.

Reconciliation of Total Revenue to Revenue as Referenced in Note 15

The items listed represent the income and expense amounts required to reconcile total revenue with revenue as referenced in Note 15 and defined under Canadian GAAP. The following information should be read in conjunction with Note 15 of Consolidated Financial Statements.

2007	Lotteries & Bingo	Resort Casinos	OLG Casinos & Slots	Total
Total revenue	$ 1,214,959	$ 1,766,249	$ 2,056,664	$ 5,037,872
Lottery prizes	1,444,145			1,444,145
Interest and other income	(5,176)	(22,795)	(18,205)	(46,176)
Foreign exchange loss (gain)	3	(13,361)	(3,420)	(16,778)
Reallocation of shared support services	1,676	(531)	5,989	7,134
Revenue as referenced in Note 15	**$ 2,655,607**	**$ 1,729,562**	**$ 2,041,028**	**$ 6,426,197**

2006	Lotteries & Bingo	Resort Casinos	OLG Casinos & Slots	Total
Total revenue	$ 1,175,348	$ 1,969,256	$ 2,014,408	$ 5,159,012
Lottery prizes	1,259,652			1,259,652
Interest and other income	(3,346)	(22,181)	(17,268)	(42,795)
Foreign exchange loss (gain)	(8)	(15,840)	(4,164)	(20,012)
Reallocation of shared support services	1,027	(1,488)	4,204	3,743
Revenue as referenced in Note 15	**$ 2,432,673**	**$ 1,929,747**	**$ 1,997,180**	**$ 6,359,600**

Total revenue is used as the denominator in the calculation of the adjusted EBIDA margin and payroll as a percentage of total revenue.

The adjusted EBIDA margin for lotteries and bingo for fiscal 2007 decreased as compared to last year due to higher prizes and commissions, as explained earlier. The Adjusted EBIDA margin for resort casinos was less than last year as both revenue decreases (smoking ban) and operating expense increases negatively impacted the KPI. The adjusted EBIDA margin for casinos and slots at racetracks was slightly below last year, as the increase in revenues was offset by the increase in operating expenses.

Marketing as a percentage of gaming revenue for lotteries and bingo decreased marginally from last year due to higher revenues. Resort casinos' marketing as a percentage of gaming revenue was higher than last year due to the properties' increased spend as part of the strategy to mitigate the impact of the provincial non-smoking legislation. Casinos and slots at racetracks marketing expenses remained consistent with the prior year, as a result of continued cost containment efforts.

Payroll as a percentage of total revenue for lotteries and bingo decreased slightly from last year as a result of higher revenue. Payroll as a percentage of total revenue at the resort casinos increased as compared to last year, primarily due to the decrease in revenues from the smoking ban, despite staffing adjustments made to accommodate lower patronage. Payroll as a percentage of total revenue was slightly lower for casinos and slots at racetracks operations due to a combination of higher revenues and lower payroll expenses.

In addition to the above-listed indicators, market share analysis is undertaken on an ongoing basis at Casino Windsor and the Niagara casinos. Casino Windsor's market share has declined since 1999 as three Detroit-based casinos opened in the 17 months between July 1999 and November 2000. In fiscal 2007, the Detroit/Windsor gaming market declined 1.2 per cent, the first decline in its history. The Niagara casinos compete for market share with a total of five New York State facilities that collectively offer approximately 9,100 slot machines and video lottery terminals. On a regional scope, four "racinos" slot facilities have opened during this fiscal in the Pennsylvania area offering approximately 7,950 slot machines to patrons. In addition to increased competition, ongoing border issues and a strong Canadian dollar continue to depress the number of US patrons who visit these border locales.

Fees Paid to External Auditors

For the fiscal year ended March 31, 2007, the Corporation retained its independent auditors, Grant Thornton LLP, KPMG LLP and Ernst and Young LLP, to provide services in the categories and amounts shown below.

	Grant Thornton	KPMG	Ernst & Young	Fiscal 2007 Total	Fiscal 2006 Total
Audit services	$ 321,672	$ 823,780	$ 215,391	$ 1,360,843	$ 1,143,564
Audit-related services	42,824	140,205	–	183,029	221,140
Tax services	–	617,559	–	617,559	485,151
Other services	118,259	824,662	–	942,921	126,769
Total of all services	**$ 482,755**	**$ 2,406,206**	**$ 215,391**	**$ 3,104,352**	**$ 1,976,624**

Other services provided in fiscal 2007 included services for interim financial statements and for the review of the Corporation's practices with respect to insider wins and three related reports, further to the Ombudsman review, as discussed on page 45.

Board of Directors

Timothy Reid, Chair
February 23, 2004 – May 26, 2006

Michael Gough, Chair
Chair effective May 27, 2006
March 1, 2006 – February 28, 2009

Ronald Fotheringham
August 25, 2004 – August 24, 2007

Kristina Liljefors
August 8, 2005 – September 16, 2006

Marlene McGraw
February 15, 2006 – February 14, 2009

Michelle Samson-Doel
July 5, 2004 – July 4, 2007

Beverly Topping
July 5, 2004 – July 4, 2007

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